The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

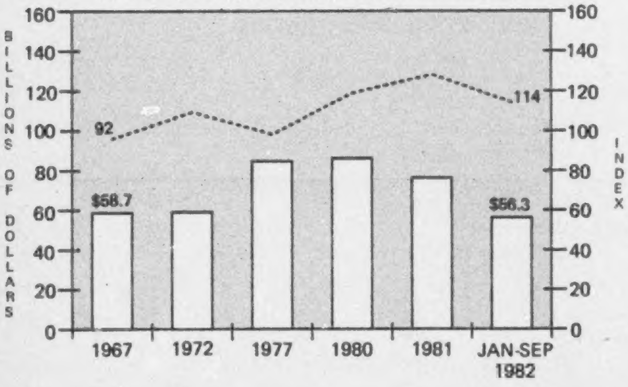
MONDAY, NOVEMBER 1, 1982
VOLUME XIX, NUMBER 44

It's A Long Convalescence . . .

Amid ever-swirling rumors of imminent discount rate cuts, monetarism abandoned and recovery found, one of the most welcome financial developments occurring this year was the strong surge in equities prices. Until last week neither soaring levels of business bankruptcies nor swelling numbers of unemployed deterred the optimism of analysts, traders and investors alike. Notwithstanding last week's decline in stock prices, it would seem as though the U.S. economy will continue to expand over the near term—albeit weakly.

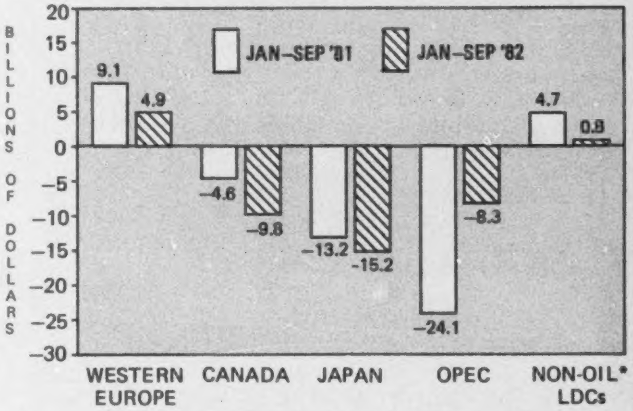
Any expansion, however mild, will come none-too-soon for hard-hit corporate America. For, simply put, one factor which is not driving equities prices higher is recent trends in corporate profits. According to preliminary estimates by this Bank, before-tax profits remained virtually unchanged in the third quarter, rising a slight $3 billion quarter-over-quarter, or just about two per cent, to a seasonally adjusted $175 billion annual rate. This implies that pre-tax profits in the third quarter were about 25 per cent, or nearly $60 billion, below year-ago levels. With only two exceptions, this would be the largest percentage plunge in corporate profits during any four-quarter period in the postwar era. The largest came just six months earlier when, during the year ending March, 1982, they fell by 32 per cent (or about $80 billion). What is more, after-tax earnings did not perform any better. During the July-September period, they rose by only $2 billion quarter-over-quarter, to a seasonally adjusted $118 billion annual rate.

CHART I
REAL AFTER-TAX CORPORATE PROFITS (BAR) VS.
STANDARD & POOR'S COMPOSITE OF 500 STOCKS (DOT)



About the best that can be said of these numbers is that the long profits plunge may have finally bottomed out. If so, two factors in particular appear principally responsible. For one, the sharp drop in inflation-driven, inventory profits has almost ceased. Whereas these profits had accounted for as much as 30 per cent of after-tax earnings only two years ago—swelling reported earnings—their rapid evaporation, in the emerging climate of disinflation, has had just the opposite effect: namely, exaggerating the profits slide. Last quarter for example, with inventories pared and inflation rates subsiding, inventory profits ran at an approximately $10 billion seasonally adjusted annual rate, almost unchanged from quarter-earlier levels—but now comprising less than nine per cent of after-tax profits. This was $13 billion below the level of inventory profits registered during the third quarter of 1981, a drop which alone accounted for almost 50 per cent of the decline in after-tax earnings since then.

CHART II
U.S. MERCHANDISE TRADE BALANCE WITH SELECTED COUNTRIES
(F.A.S. EXPORTS/C.I.F. IMPORTS BASIS)



*Data for January through July only.

Although halting the free-fall in inventory profits may help stabilize earnings size, it does little for

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earnings quality. But recent trends in unit labor costs do—and they point to a brightening profits scene. With average weekly earnings dipping and productivity rising, unit labor costs in manufacturing declined slightly in the third quarter—only the second time in seven years. They fell at a 0.6 per cent seasonally adjusted annual rate in the third quarter, a substantial turnaround when compared with third quarter, 1981 results. At that time, they shot up at a seven per cent seasonally adjusted annual rate.

. . . For Ailing Corporate Finances . . .

While the long earnings slide may be coming to an end, corporate financial health is still a long way off. In recent years, as corporate earnings growth slowed and cash flows became evermore severely squeezed, business dependence on debt, especially high-cost, short-term debt, expanded rapidly—with all-too-predictable consequences for most traditional indicators of corporate liquidity. One measure, the ratio of interest expense to net cash flow may hit 33 per cent this year; it was only 20 per cent in 1976. Another, the ratio of short-term debt to total liabilities currently stands just a shade below 50 per cent, well above the 40 per cent level prevailing six years ago. So, too, such ratios as current assets to current liabilities, debt to equity and dividends to after-tax earnings have all deteriorated sharply, and are unlikely to turn around any time soon.

Thus, for many corporations, interest costs will

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/20/82	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	142.041	+ 2.305	+ 8.341
Loans to Depository Inst.	.515	+ .155	− .741
Float	2.770	+ .431	− .767
Total Reserve Bank Credit	155.776	+ 3.167	+ 7.145
Treasury Deposits with Federal Reserve Banks	2.858	+ .039	− .885
Currency Outside Banks	134.282	+ 1.264	+ 9.546
Member Bank Reserves:			
Required	40.972	+ 2.089	− .202
Excess (Deficiency)	.285	− .246	− .002
Total Reserves Held	41.257	+ 1.843	− .204
Net Borrowed Reserves	.145	+ .386	− .669
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.219	− .720	+ 9.729
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1	467.7	+ 13.2‡	+ 7.5‡
M2 (September '82)	1,954.5	+ 9.8	+ 9.9
M3 (September '82)	2,362.5	+ 11.6	+ 10.5
L (June '82)	2,797.8	+ 12.0	+ 11.6

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 10/29/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.83%	8.32%	8.46%
* Federal Agencies	7.80	8.65	10.30
* Project Notes—Taxfree (46% Taxable Equivalent)	7.69	8.06	10.00
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.05	9.35	10.25

‡Finance Company Paper—Prime	
5- 14 days	8.75%
15- 29 days	8.75
30- 59 days	8.63
60- 89 days	8.63
90-179 days	8.50
180-239 days	8.50
240-270 days	8.50

‡* Bankers' Acceptances	
Nov.	8.80%
Dec.	8.80
Jan.	8.90
Feb.	8.90
Mar.	9.00
Apr.	8.95

‡Industrial Paper—Prime	
30- 89 days	8.63%
90-120 days	8.63

†Federal Funds	
Effective Rate	9.45%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,091	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,481	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.8	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Sep '82n	2.4%	3.6%	13.2%
Change in Producer Prices*	Sep '82	− 1.2%	7.2%	2.4%
Civilian Employment (Thousands of Persons)†	Sep '82	99,720	99,839	100,258
Unemployment as % of Civilian Labor Force†	Sep '82	10.1%	9.8%	7.6%
Personal Income*	Sep '82	$ 2,605	$ 2,597	$ 2,479
Leading Indicators Composite Index (1967=100)†	Sep '82n	130.4	129.7	130.7
Industrial Production Index (1967=100) †	Sep '82	137.3	138.1	151.6
Net Change in Consumer Installment Credit†	Aug '82	$ 0.07	$ 0.57	$ 2.43
U.S. Merchandise Trade Balance †	Sep '82n	−$ 4.19	−$ 7.08	−$ 2.77
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Sep '82	1,146	1,002	899
New Construction Expenditures*	Aug '82	$ 232.3	$ 228.7	$ 235.9
Total Business Inventories†	Aug '82	$ 515.6	$ 513.4	$ 510.1
Total Business Sales†	Aug '82	$ 339.1	$ 344.6	$ 354.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

continue to absorb a good-sized chunk of internally-generated funds and most will remain extremely vulnerable to abrupt changes in short-term credit costs and availability. To be sure, a growing number are attempting to lessen this vulnerability, funding large amounts of short-term debt in the bond markets. But while new corporate bond issuance has surged to about $5 billion monthly over the last four months (compared with less than $2 billion monthly during the first half of 1982), the task ahead remains enormous. If, for example, the ratio of short-term to total liabilities is to be again reduced to 40 per cent, the current level of corporate bond offerings must be maintained for at least the next 20 months—and all of the proceeds used to retire $100 billion of existing short-term debt!

Until such improvements are underway and corporate profits growth accelerates, the permanence of the equities price rally may be as fleeting as brightly-colored autumn leaves. After all, although the Standard and Poor's Composite 500 Stock Index is 24 per cent higher now than in 1967, inflation-adjusted, after-tax earnings are actually lower today than in 1967 (see Chart I).

. . . And Export Sales . . .

Judging by the latest export figures it doesn't appear that overseas sales will be a major contributor to corporate profits in the near future. Not only are the prospects for world trade dismal for the rest of 1982 and only slightly better in 1983, but the global recession and the strong dollar have dealt the U.S.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/13/82)	148,414	+ 359	+18,704
New York City (10/13/82)	37,500	+ 378	+ 5,092
Commercial Paper (10/13/82)	173,610	– 20	+10,931

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/13/82)	218,605	– 1,420	+29,942
New York City (10/13/82)	62,514	– 171	+ 7,608

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/13/82)	503,632	+ 923	+44,716
New York City (10/13/82)	122,132	+ 2,066	+11,578

Financial Markets

	Friday 10/29/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.10%	+ .20	– 5.15
180-Day Bills†	8.80	+ .20	– 5.05
Longest Bills†	9.15	– .05	– 5.20
Recent Issues:			
$9^{3}/_{4}$s 10/31/84 (When Issued)	7.79	– 2.19	
$12^{1}/_{4}$s 9/30/86	10.41	– .20	
$13^{3}/_{4}$s 5/15/92	11.05	– .29	
14s 11/15/11	10.87	– .14	
Municipals:			
Bond Buyer—20 Bond Index* (10/28/82)	10.05%	+ .36	– 2.94
Blue List Total ($ Million)	$1,323	– $ 97	+ $ 502
30-Day Visible Supply ($ Million)	$4,279	– $ 59	+ $2,558
Total	$5,602	– $156	+ $3,060
Corporates:			
Moody's Aa Composite (10/28/82)	12.85%	+ .06	– 3.10
30-Day Visible Supply ($ Million) ‡	$1,420	+ $160	NA
Stocks:			
Dow-Jones Averages:			
Industrials	991.81	– 39.65	+ 139.26
Transportation	420.19	– 19.18	+ 44.59
Utilities	119.14	– 2.40	+ 12.29
65 Stocks	389.03	– 15.15	+ 48.40
Standard and Poor's 500 Stocks	133.71	– 5.12	+ 11.82
N.Y.S.E. Composite Index	76.95	– 2.73	+ 6.31
N.Y.S.E. Avg. Daily Vol. for Week (000's)	83,274	–18,266	+ 35,428

* 46% Taxable equivalent 18.61%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/29/82	Week Ago
Overnight	9.63%	9.50%
1 month	9.63	9.56
3 month	9.94	9.75
6 month	10.19	10.00
1 year	10.50	10.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.75%	12.70%
Long Term (7 to 15 yrs.)	12.70	12.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/29/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02019	49.54
Canada	.8156	1.2261
Denmark	.1112	8.9955
France	.1380	7.2485
Germany	.3900	2.5640
Italy	.0006793	1472.10
Japan	.003603	277.53
Mexico	.009346	107.00
Netherlands	.3592	2.7840
Switzerland	.4519	2.2128
U.K.	1.6725	.5979

trade balance a severe blow. In September the U.S. merchandise trade deficit was a still hefty $4.2 billion (fas exports/cif imports basis) after a record $7.1 billion deficit in August. The reduction in the monthly deficit was due to a large decline in imports while exports held virtually steady. In September, exports fell less than one per cent from the previous month's level while imports were down over 12 per cent (after rising some 20 per cent in the prior month). But over one-third of the drop in last month's imports was due to a sharp plunge in petroleum purchases abroad which were down 19.3 per cent in value and 17.5 per cent in volume terms from the previous month. Wide monthly fluctuations in oil imports in the last two years have made monthly import data particularly volatile.

In spite of the wide monthly variations in the merchandise trade data, it is apparent that there has been a general deterioration in the U.S. trade position this year (see Chart II). During the first nine months of 1982, the U.S. generated a $29.7 billion merchandise trade deficit compared with a $28.6 billion deficit for the same period in 1981. A closer look at the details behind these figures, however, indicates that the weakness is widespread. At a seasonally adjusted annual rate, exports are running about seven per cent below 1981 and imports have fallen by about six per cent. In those areas where the United States usually runs trade surpluses, such as Western Europe and the non-oil developing countries (LDCs), the surpluses for the first nine months of this year were substantially below the levels for the same period last year. In those areas where the U.S. usually runs a deficit on trade, the deficits for the first three quarters of 1982 were greater than for the first three quarters in 1981—except for the OPEC nations, where the steep decline in oil imports into the U.S. has reduced the trade imbalance. Petroleum imports for the first eight months of this year were down 23.5 per cent in value terms and 15.5 per cent in volume terms below the same period in 1981.

. . . Will Be No Panacea

World trade has been depressed for the past two years as a result of the global recession. But beyond the general weakness of the U.S. trade position due to the global economic environment are the perverse trade effects of the strong dollar. Exports are adversely affected because the strong dollar reduces price competitiveness abroad. What is less often mentioned, however, is the fact that the strong dollar not only stimulates imports (which are cheaper in dollar terms), but also that competition in the U.S. domestic market increases. This is because foreign competitors can either underprice those American firms in the U.S. market or they can generate a higher profit which strengthens the balance sheets of the foreign firms at the expense of their U.S. competitors. Since an American company's domestic market is usually its principal, most stable and most profitable market, these effects of the strong dollar can be particularly damaging. ■

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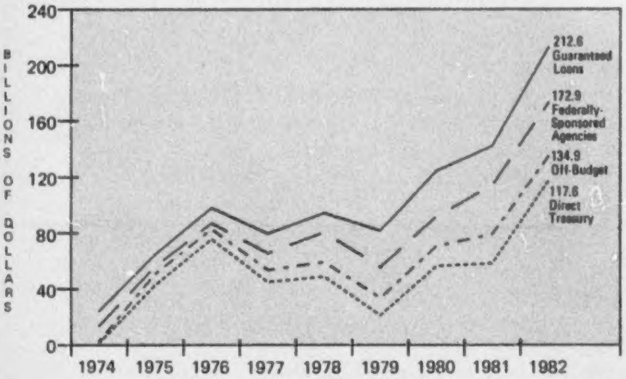
The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, NOVEMBER 8, 1982 VOLUME XIX, NUMBER 45

To The Congressional Victors . . .

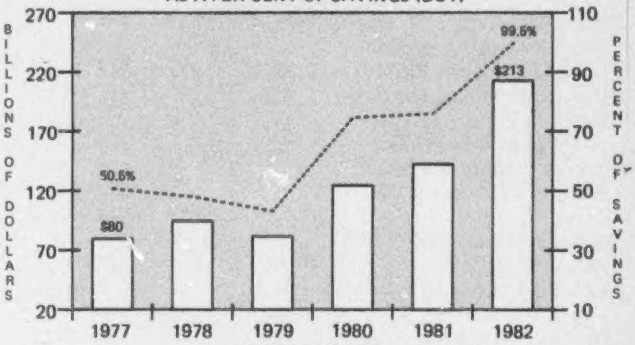
With the midterm elections now over, the debate begins as to what conclusions can be drawn from them about the current mood of the electorate, especially its attitudes toward the Administration's economic programs. Political observers have declared for months that these elections would be a referendum on "Reaganomics," but if they were, the outcome was mixed. For despite such sizable net Democratic gains as seven new governorships—five in the recession-plagued upper Midwest—and 26 House seats, the Republicans did manage to maintain their existing numerical edge in the Senate. As a result, both major parties have proclaimed a victory of sorts, declaring that the public had decided to either "stay the course" or "abandon ship." But whatever the political pundits eventually decide, there is one Capital city fixture that remains: The ballooning Federal budget deficit and its associated borrowing requirements.

CHART I
COMPONENTS OF FEDERAL BORROWING



Although the newly-elected Congress may eventually alter the thrust of fiscal policy, especially the defense/non-defense mix of public spending, there will probably be very little change over the next several months. Nor are any abrupt changes likely in the conduct of monetary policy. While it remains unclear as to whether or not the Federal Reserve did permanently abandon its adherence to monetarism, it appears a good bet that the monetary reins will not be firmed as long as the number of business bankruptcies continues to soar and the jobless ranks continue to swell. Indeed, judging by these developments, as well as recent trends in inflation, just the opposite might be needed.

CHART II
TOTAL FEDERAL BORROWING (BAR) VS.
TOTAL FEDERAL BORROWING
AS A PER CENT OF SAVINGS (DOT)



It appears that the economy has finally begun to stir—if the recent upticks in the index of leading economic indicators, factory orders, housing starts and single-family home sales have any predictive value at all. But while the long-awaited revival of business activity may now be underway, its staying power could be short-circuited by fiscal policy. For lost amidst the post-election rhetoric is one very disturbing pre-election fact: Ever-widening budget deficits and the vast Federal borrowing needs that go with them. In fiscal year 1982, the reported "on-budget" Federal deficit soared to a record $111 billion, more than $53 billion higher than fiscal year-earlier levels. Adding to this total a further $17 billion of "off-budget" outlays, primarily those of the Federal Financing Bank, yields an "enlarged" budget deficit of just a shade under $130 billion—also a new record, needless to say.

. . . Go The Spoils . . .

This massive red ink total stemmed from a combination of both dampened revenue growth and a sharp rise in Federal spending. On the one hand, the cuts in personal income tax rates in 1981, the recession and the lower rates of inflation which it caused, clearly affected receipts growth adversely. Total

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receipts rose by only 2.6 per cent in fiscal 1982 year-over-year, the smallest rise since 1975. Outlays, on the other hand, headed in the opposite direction. They increased 11 per cent year-over-year, reaching 24 per cent of GNP—their highest level, when expressed as a proportion of total output, since 1946. Spending on income security programs, especially Social Security, farm price supports and interest on the public debt all soared; these three items alone accounted for almost two-thirds of the $74 billion rise in total Federal outlays. Interestingly, the often-cited budget nemesis of increased military spending accounted for only about 35 per cent of the year-over-year outlay gain—indicating that the full impact of President Reagan's defense proposals has yet to come.

This suggests that the deep and persistent recession alone is not solely responsible for the current budget woes. To be sure, each one percentage point increase in the unemployment rate lifts the red ink total by approximately $20 billion, while a one percentage point downturn in real GNP growth raises the deficit by about $10 billion. But even reducing the unemployment rate to its year-ago level of about seven per cent and accelerating economic growth by three full percentage points in the current fiscal year would lower the deficit by no more than $90 billion. This is, indeed, a sizable improvement—but it still would leave a core budget deficit of around $70 billion. With deficits of $155-$160 billion likely this fiscal year and next, it becomes clear that the cyclical portion of the budget deficit is just one

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(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/27/82	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.695	– .946	+ 9.592
Loans to Depository Inst.	.452	– .063	– .732
Float	1.675	– 1.109	– 1.271
Total Reserve Bank Credit	153.721	– 2.069	+ 8.131
Treasury Deposits with Federal Reserve Banks	2.774	– .084	– .295
Currency Outside Banks	132.641	– 1.643	+ 9.359
Member Bank Reserves:			
Required	40.778	– .194	+ .132
Excess (Deficiency)	.270	– .029	+ .033
Total Reserves Held	41.048	– .223	+ .165
Net Borrowed Reserves	.092	– .039	– .708
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component of the red ink total—and may soon not even be the largest. The rapid growth of inflation-indexed entitlement programs in years past, and defense spending and interest costs in years to come, is simply not compatible with the huge tax cuts already legislated.

. . . Including A Bloated Federal Deficit

As a result, the financial markets will have to wrestle with a deluge of new Treasury issues well into the future. For as the deficits spin higher, so do Treasury borrowing needs. They reached $134 billion in fiscal 1982 (including off-budget borrowings), compared with less than $80 billion in fiscal 1981. As if this was not bad enough, these borrowings are, as shown in Chart I, only one component of the Federal intrusion in the credit markets. Including the credit needs of such Federally-sponsored agencies as the Farm Credit Banks and the Federal Home Loan Banks, as well as the market impact of Federally-guaranteed loans, total Federal and related borrowings surged to more than $210 billion in fiscal 1982. This compares with total borrowings of $142 billion in fiscal 1981, and less than $80 billion just five years ago.

It also means that the Federal government, both directly and indirectly, is absorbing an ever-larger proportion of net national savings. Whereas such borrowings were equivalent to 50 per cent of net national savings in fiscal 1977, this ratio soared to just about 100 per cent in fiscal 1982. What is more,

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/20/82)	147,832	– 582	+19,812
New York City (10/20/82)	38,229	+ 729	+ 6,187
Commercial Paper (10/20/82)	171,861	– 1,749	+ 8,132

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
	Latest Week	Change Since	
Weekly Reporting Large Commercial Banks		Week Ago	Year Ago
Nationwide (10/20/82)	217,854	– 750	+29,168
New York City (10/20/82)	62,005	– 509	+ 6,986

	Total Loans Gross Adjusted		
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (10/20/82)	502,534	– 1,098	+42,715
New York City (10/20/82)	121,709	– 423	+ 9,317

Financial Markets

	Friday 11/5/82	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.05%	– .05	– 4.58
180-Day Bills†	8.75	– .05	– 4.37
Longest Bills†	9.10	– .05	– 4.40
Recent Issues:			
9$\frac{3}{4}$s 10/31/84	9.75	+ 1.96	
12$\frac{1}{4}$s 9/30/86	10.22	– .19	
10$\frac{1}{2}$s 11/15/92 (When Issued)	10.50	NA	
14s 11/15/11	10.64	– .23	
Municipals:			
Bond Buyer–20 Bond Index* (11/4/82)	9.96%	– .09	– 2.48
Blue List Total ($ Million)	$1,121	–$ 202	+ $ 374
30-Day Visible Supply ($ Million)	$6,316	+$2,037	+ $4,441
Total	$7,437	+$1,835	+ $4,815
Corporates:			
Moody's Aa Composite (11/4/82)	12.43%	– .42	– 2.98
30-Day Visible Supply ($ Million) ‡	$ 995	–$ 425	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1051.78	+ 59.97	+ 199.33
Transportation	452.19	+ 32.00	+ 69.07
Utilities	122.55	+ 3.41	+ 15.02
65 Stocks	412.67	+ 23.64	+ 69.49
Standard and Poor's 500 Stocks	142.16	+ 8.45	+ 19.49
N.Y.S.E. Composite Index	81.83	+ 4.88	+ 10.50
N.Y.S.E. Avg. Daily Vol. for Week (000's)	112,392	+29,118	+ 58,894

* 46% Taxable equivalent 18.44%.

‡Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 11/5/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.50%	9.63%
1 month	9.50	9.63
3 month	9.69	9.94
6 month	9.75	10.19
1 year	10.13	10.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.45%	12.75%
Long Term (7 to 15 yrs.)	12.50	12.70

FOREIGN EXCHANGE SPOT RATES **New York Opening (11/5/82)**	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02007	49.82
Canada	.8189	1.2212
Denmark	.1107	9.0295
France	.1377	7.2625
Germany	.3886	2.5735
Italy	.0006781	1474.50
Japan	.003619	276.35
Mexico	.008130	123.00
Netherlands	.3570	2.8008
Switzerland	.4499	2.2228
U.K.	1.6670	.5999

with the Federal deficit likely to reach $160 billion in fiscal year 1933, total borrowings will surge again—perhaps as high as $275 billion. At this level, they would absorb more net savings than the economy is likely to generate next year, and comprise a record proportion of total funds raised in the credit markets. Indeed, for the next Congress, this is one spoil that will not go away (see Chart II). ■

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B5350-2 11/15/82

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 15, 1982 VOLUME XIX, NUMBER 46

There Is Some Good News . . .

Following many months of bleak economic news, a few statistics have been released in recent weeks which offer some hope that the economy is scraping bottom and may be about to turn the corner. Perhaps the most encouraging evidence comes from the housing industry, where in September, there were substantial improvements at every stage of development. Sales of finished new homes rose by almost a third compared with July, construction was started on 14.4 per cent more homes in September than in August, and applications for building permits—harbingers of future construction activity—soared by 16.9 per cent, month-over-month.

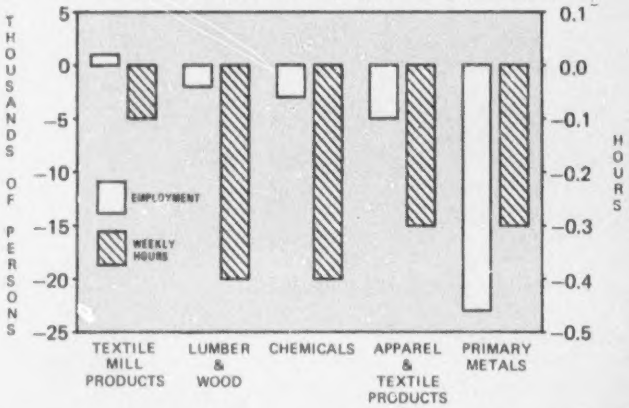
Prompted by the sharp drop in mortgage interest rates and a decline in housing prices, sales of new one-family homes advanced by almost 24 per cent in September compared with August, rising to a seasonally adjusted annual rate of 464,000—almost 40 per cent above a year ago and the highest monthly rate since May, 1981. As a result, the inventory of unsold homes fell to a relatively healthy 7.1 months at the selling rate of September, 1982; a year earlier there was almost one year's supply of unsold homes. However, many of these homes were sold at public auctions at prices significantly below those originally anticipated. Many financially squeezed builders had to generate cash to avoid bankruptcy proceedings.

. . . But The Preponderance Of Bad News . . .

But the economy needs more than one engine to pull it out of its depressed state. While September's 0.7 per cent month-over-month rise in new orders for factory goods was good news, a look beneath the surface is less cheerful. The increase was entirely attributable to a 1.5 per cent improvement in the nondurable goods category, which, despite its recent weakness, has survived this recession rather well. However, the depressed durable goods sector, which has been bearing the brunt of this recession and which desperately needs a boost, once again received fewer orders than in the preceding month.

For example, new orders for transportation equipment declined by more than ten per cent, with the dropoff centered in the aircraft and motor vehicle industries. Orders for primary metals dropped by 3.1 per cent, paced by a ten per cent drop in the demand for steel. These cutbacks were only partially offset by a pickup in orders for machinery. Orders for nonelectrical machinery rose by six per cent, while bookings for electrical machinery were up by 4.4 per cent.

EMPLOYMENT AND WEEKLY HOURS
OF PRODUCTION WORKERS IN OCTOBER
(CHANGE FROM PREVIOUS MONTH, SEASONALLY ADJUSTED)



Furthermore, although manufacturers have been working off inventories since late last year, their stocks still seem to be uncomfortably high, especially in view of the slowing shipment rate. And their backlogs are getting leaner, suggesting that they will not get any busier in the near future. All this practically insures that in the absence of a significant pickup in orders, manufacturers are not going to crank up production lines any time soon.

. . . May Again Put Off The Recovery

The downturn in economic activity and the persistence of uninspiring news have had a depressing impact on the buying habits of consumers and businessmen alike. Although retail sales adjusted for seasonal variations but not for inflation rose 0.6 per cent in October, they were still 1.4 per cent below their levels of five months ago. While most economists had expected that consumers would lead the economy out of recession, it seems that people are

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waiting for signs of improvement elsewhere, before opening their wallets. Indeed, the high level of unemployment and the discouraging job outlook are causing many people to continue to curtail their buying plans. According to the Conference Board's October survey, consumer attitudes remain sour and as a result, few intend to buy a home, a car, major appliances or home furnishings in the next six months.

Similarly, purchasing managers of the nation's largest industrial companies are still exercising extreme caution in their buying policies. In October, a majority of those surveyed by the National Association of Purchasing Management said that they were ordering materials as close to the actual need as possible; 60 per cent of them are buying production materials no further ahead than one month. By contrast, at the start of this recession, most were buying two to three months ahead. What is more, 51 per cent of them are buying maintenance, repair or operating supplies on a hand-to-mouth basis—the highest proportion in the history of this survey.

An examination of the labor markets also arouses suspicion about the imminence of an economic recovery. Massive layoffs, which helped produce the 10.4 per cent rate of unemployment in October, are affecting more and more industries (see chart on page 1). Even the service-producing sector of the economy, which until recently, has seen only slower growth in employment, has now posted

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/3/82	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.223	– .472	+ 8.562
Loans to Depository Inst.	.459	+ .007	– .774
Float	1.850	+ .115	– .690
Total Reserve Bank Credit	153.623	– .158	+ 7.333
Treasury Deposits with Federal Reserve Banks	2.654	– .120	– .756
Currency Outside Banks	132.453	– .188	+ 9.345
Member Bank Reserves:			
Required	40.703	– .075	+ .168
Excess (Deficiency)	.552	+ .222	+ .148
Total Reserves Held	41.255	+ .147	+ .316
Net Free Reserves	.362	+ .215	+ .605
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	101.394	+ 1.191	+10.240

		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1 (10/27/82)	470.2	+ 14.5‡	+ 8.0‡
M2 (September '82)	1,954.1	+ 9.7	+ 9.9
M3 (September '82)	2,362.3	+ 11.6	+ 10.5
L (July '82)	2,830.5	+ 12.7	+ 11.9

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 11/12/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.10%	8.40%	8.47%
* Federal Agencies	8.00	8.65	9.60
* Project Notes–Taxfree (46% Taxable Equivalent)	7.96	8.24	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.10	9.25	10.00

‡Finance Company Paper–Prime	
5- 14 days	9.00%
15- 29 days	9.00
30- 59 days	8.75
60- 89 days	8.63
90-179 days	8.50
180-239 days	8.50
240-270 days	8.50

‡* Bankers' Acceptances	
Dec.	8.70%
Jan.	8.75
Feb.	8.85
Mar.	8.85
Apr.	8.90
May	8.85

‡Industrial Paper–Prime	
30- 89 days	8.50%
90-120 days	8.50

†Federal Funds Effective Rate 9.65%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,091	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,481	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.8	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Sep '82	2.4%	3.6%	13.2%
Change in Producer Prices*	Sep '82	– 1.2%	7.2%	2.4%
Civilian Employment (Thousands of Persons)†	Oct '82	99,093	99,720	100,343
Unemployment as % of Civilian Labor Force†	Oct '82	10.4%	10.1%	8.0%
Personal Income*	Sep '82	$ 2,605	$ 2,597	$ 2,479
Leading Indicators Composite Index (1967=100)†	Sep '82	130.4	129.7	130.7
Industrial Production Index (1967=100) †	Sep '82	137.3	138.1	151.6
Net Change in Consumer Installment Credit†	Sep '82n	$ 1.09	$ 0.07	$ 2.98
U.S. Merchandise Trade Balance †	Sep '82	–$ 4.19	–$ 7.08	–$ 2.77
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Sep '82	1,146	1,002	899
New Construction Expenditures*	Sep '82	$ 229.8	$ 230.2	$ 233.5
Total Business Inventories†	Sep '82n	$ 515.3	$ 514.6	$ 515.3
Total Business Sales†	Sep '82n	$ 338.4	$ 339.5	$ 353.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

declines in two of the past three months. While the wholesale and retail trade industries suffered the most, employment levels in the transportation and public utilities, finance, insurance and real estate and the federal government are also down.

Of the 20 major goods-producing industries monitored by the Bureau of Labor Statistics, 17 reduced their payrolls of production workers in October. Only three nondurable goods industries—food and kindred products, petroleum and coal products and textile mill products—added workers. In addition, the average workweek of production and nonsupervisory workers was cut in more than half of these 20 industries, portending further layoffs in the near future.

Some Areas Remain Strong

Although no region of the country has been untouched by the recession, some areas are less affected than others. Spurred by military projects, high technology and financial services, and aided by the recent decline in interest rates, business is thriving in several areas around the nation.

For example, Long Island, New York, has resisted the recession far better than other parts of the country. Benefiting from the expansion of small companies which had fled New York City's high labor and land costs in the mid-1970s, Long Island has developed into a high-technology center. A large number of small, owner-run companies serve the defense industry and other rapidly growing markets

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/27/82)	146,628	– 1,204	+18,511
New York City (10/27/82)	38,768	+ 539	+ 6,536
Commercial Paper (10/27/82)	170,075	– 1,786	+ 5,445

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/27/82)	216,847	– 943	+29,158
New York City (10/27/82)	61,671	– 334	+ 7,439

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/27/82)	499,702	– 2,808	+44,125
New York City (10/27/82)	119,772	– 1,937	+12,411

Financial Markets

	Friday 11/12/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.30%	+ .25	– 2.64
180-Day Bills†	8.65	– .10	– 3.18
Longest Bills†	8.70	– .40	– 3.33
Recent Issues:			
9¾s 10/31/84	9.80	+ .05	
12¼s 9/30/86	10.30	+ .08	
10½s 11/15/92 (When Issued)	10.55	+ .05	
10⅜s 11/15/12 (When Issued)	10.45	NA	
Municipals:			
Bond Buyer—20 Bond Index* (11/11/82)	9.92%	– .04	– 1.51
Blue List Total ($ Million)	$1,229	+ $108	+ $ 526
30-Day Visible Supply ($ Million)	$5,619	– $697	+ $3,494
Total	$6,848	– $589	+ $4,020
Corporates:			
Moody's Aa Composite (11/11/82)	12.50%	+ .07	– 2.48
30-Day Visible Supply ($ Million) ‡	$ 882	– $113	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,039.92	– 11.86	+ 184.04
Transportation	444.84	– 7.35	+ 58.28
Utilities	119.42	– 3.13	+ 8.45
65 Stocks	406.62	– 6.05	+ 59.95
Standard and Poor's 500 Stocks	139.53	– 2.63	+ 17.86
N.Y.S.E. Composite Index	80.69	– 1.14	+ 9.84
N.Y.S.E. Avg. Daily Vol. for Week (000's)	94,760	–17,632	+ 45,570

* 46% Taxable equivalent 18.37%.

‡Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 11/12/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.00%	9.50%
1 month	9.50	9.50
3 month	9.69	9.69
6 month	9.88	9.75
1 year	10.13	10.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.45%	12.45%
Long Term (7 to 15 yrs.)	12.50	12.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/12/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01994	50.16
Canada	.8165	1.2248
Denmark	.1103	9.0675
France	.1368	7.3125
Germany	.3863	2.5888
Italy	.0006724	1487.20
Japan	.003734	267.83
Mexico	.007968	125.50
Netherlands	.3554	2.8135
Switzerland	.4487	2.2288
U.K.	1.6530	.6050

such as telecommunications and computers and provide a broad and varied economic base. As a result, Long Island's jobless rate in September was only 5.7 per cent—little more than half the national average.

Defense projects, along with finance, have also enabled many areas in Connecticut to outpace the national economy. In particular, Greenwich and Stamford have grown as headquarter cities attracting large corporations through the amenities of suburban living along with close proximity to New York City. In September, 1982, Stamford's unemployment rate of 3.5 per cent was the lowest in the nation for any major city.

After reducing Maine's jobless rate in 1981 to below the national average for the first time in a quarter of a century, the electronics, defense and service industries continued to keep the state's unemployment levels relatively low in 1982. Portland, the state's largest city, has grown as a center of services for new business, attracting banks, financial, retail and other service industries. In August, 1982, Portland's unemployment rate was 5.7 per cent. By contrast, in the 1973-75 recession, the Portland-area jobless rate reached 11 per cent.

In Atlanta, growth in service industries, particularly in travel agencies, hotels, legal and financial services and retail trade, is taking up much of the slack left by the slumping manufacturing sector. Atlanta's unemployment rate of 6.1 per cent is testimony to this. Washington, D.C., with a jobless rate of six per cent, may have lost 10,000 federal government jobs in the past year—but 8,000 private industry jobs, particularly in the computer and communications fields, were added at the same time.

Elsewhere, the commercial construction boom persists despite recession. In San Francisco, construction of a record 6.8 million square feet of downtown office space is in progress. In San Diego, New Orleans, Denver, Boulder, Indianapolis and New York, office buildings, hotels and shopping centers are under various stages of development helping to keep at bay the worst effects of the national recession. Of course, this may not last much longer, since demand for office space has already begun to slacken, while the strong dollar combined with recessions overseas has hurt tourism.

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

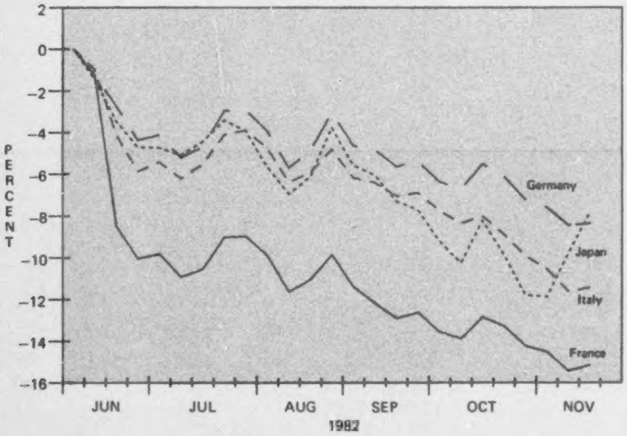
MONDAY, NOVEMBER 22, 1982 VOLUME XIX, NUMBER 47

The Road To Recovery . . .

This recession is getting to be an old-timer and may well become the longest postwar downturn. It has been around for at least 16 months and shows no signs of going away. Already, the downturn has persisted six months longer than the postwar average, and has probably equaled the length of the 1973-75 recession. What is more, since the current economic decline followed the shortest recovery on record, to many it seems even older.

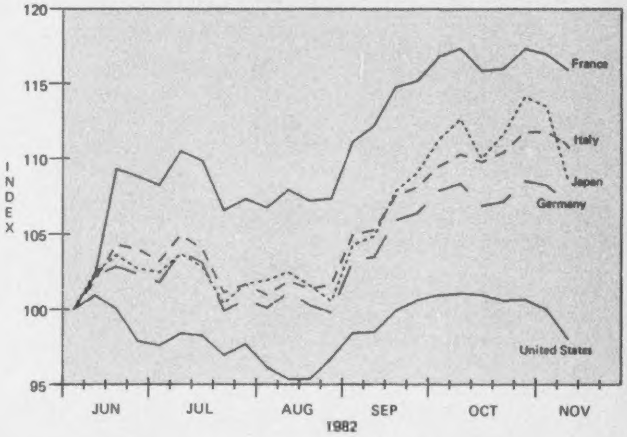
That the recession continued through the third quarter can be seen from the Commerce Department's downward revision of the third quarter's "real" GNP. Whereas Commerce originally thought that there was a seasonally adjusted 0.8 per cent annual rate of rise, more complete calculations show that the nation's output of goods and services was unchanged from the second quarter. More important, real final sales (GNP less changes in inventories) fell by 1.8 per cent—triple the previously estimated decline.

CHART I
VALUE IN U.S. DOLLARS OF SELECTED CURRENCIES
% CHANGE FROM JUNE 4, 1982



The latest readings on the economy suggest that business contracted further in October, even though the housing sector continued its apparent revival. For although construction of new homes was 31.4 per cent higher than a year ago, the month-over-month increase was slight—only one per cent—even after a sizable downward revision for September. Housing starts of single-family homes rose by only 1.3 per cent while multi-family homes remained virtually unchanged. However, the weakness was concentrated in the Northeast, where new-home starts fell by almost 35 per cent month-over-month, while all the other regions gained. The biggest advance was posted in the North Central area with 17 per cent more units started. On an even brighter note, applications for building permits—a leading indicator of economic activity in general and housing construction in particular—jumped by 18 per cent.

CHART II
AVERAGE SELLING PRICE OF OPEC OIL
LOCAL CURRENCY EQUIVALENT, JUNE 4, 1982=100



Retail sales were disappointing, increasing only 0.6 per cent month-over-month. Even this small rise was propelled by higher prices of domestic cars, not higher volume. Automobile manufacturers in October ended their discounts and rebates to dealers, lowering financing costs, instead. If car purchases are excluded, retail sales would have actually declined by 0.1 per cent.

. . . Is Getting Longer

The anemic demand from the nation's retailers and wholesalers forced manufacturers to trim production in October—the 13th monthly decline in the past 15 months. As a result, manufacturers utilized

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only 68.4 per cent of capacity last month, the lowest rate on record. Output of the nation's factories, utilities and mines—a good coincident indicator of the state of the economy—declined by a seasonally adjusted 0.8 per cent last month compared with September, headed by a 4.8 per cent slide in the production of transportation equipment. Auto assemblies fell to a 4.7 million unit rate, from a 5.5 million unit pace in both August and September.

But Detroit may take some comfort in the fact that automobile sales, aided by lower interest rates on car loans, picked up during the first ten-day selling period of November to a 6.9 million unit rate from an average of 5.5 million units in October. If sustained, this will lead to increased auto production in the coming months. Of the industries for which data were available for October, only one—petroleum and petroleum products—stepped up production. Refiners utilized 72.7 per cent of operating capacity in October compared with September's 72.1 per cent, in order to expand supplies of home heating oil and to replenish depleted inventories in preparation for the winter months.

High Tide For The Dollar . . .

The current strength of the dollar is proving to be a mixed blessing not only for the United States, but for the rest of the world as well. Although it is clear that the U.S. benefits from the strong dollar in

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/10/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.158	– .065	+ 8.986
Loans to Depository Inst.	.720	+ .261	– .288
Float	2.673	+ .794	– .219
Total Reserve Bank Credit	154.475	+ .823	+ 8.230
Treasury Deposits with Federal Reserve Banks	3.256	+ .602	+ .204
Currency Outside Banks	133.788	+ 1.337	+ 9.274
Member Bank Reserves:			
Required	39.965	– .738	+ .329
Excess (Deficiency)	.350	– .231	– .179
Total Reserves Held	40.315	– .969	+ .150
Net Borrowed Reserves	.130	+ .525	– .108
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	102.420	+ 1.026	+10.261

Monetary Aggregates †			% Change Since Three Months Ago*	% Change Since Year Ago
M1		473.1	+ 16.7‡	+ 8.5‡
M2	(October '82)	1,967.6	+ 9.2	+ 10.0
M3	(October '82)	2,379.8	+ 10.3	+ 10.6
L	(July '82)	2,830.5	+ 12.7	+ 11.9

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 11/19/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.50%	7.60%	7.95%
* Federal Agencies	8.25	8.75	9.15
* Project Notes—Taxfree (46% Taxable Equivalent)	7.41	8.33	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.00	9.13	9.88

‡Finance Company Paper—Prime	
5- 14 days	8.50%
15- 29 days	8.75
30- 59 days	8.75
60- 89 days	8.63
90-179 days	8.63
180-239 days	8.63
240-270 days	8.63

‡* Bankers' Acceptances	
Dec.	8.70%
Jan.	8.70
Feb.	8.70
Mar.	8.80
Apr.	8.75
May	8.60

‡Industrial Paper—Prime	
30- 89 days	8.75%
90-120 days	8.75

†Federal Funds Effective Rate 8.95%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,081	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,478	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.0	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Sep '82	2.4%	3.6%	13.2%
Change in Producer Prices*	Oct '82n	6.0%	– 1.2%	7.2%
Civilian Employment (Thousands of Persons)†	Oct '82	99,093	99,720	100,343
Unemployment as % of Civilian Labor Force†	Oct '82	10.4%	10.1%	8.0%
Personal Income*	Oct '82n	$ 2,621	$ 2,602	$ 2,487
Leading Indicators Composite Index (1967=100)†	Sep '82	130.4	129.7	130.7
Industrial Production Index (1967=100) †	Oct '82n	136.3	137.4	149.1
Net Change in Consumer Installment Credit†	Sep '82	$ 1.09	$ 0.07	$ 2.98
U.S. Merchandise Trade Balance †	Sep '82	–$ 4.19	–$ 7.08	–$ 2.77
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Oct '82n	1,122	1,111	854
New Construction Expenditures*	Sep '82	$ 229.8	$ 230.2	$ 233.5
Total Business Inventories†	Sep '82	$ 515.3	$ 514.6	$ 515.3
Total Business Sales†	Sep '82	$ 338.4	$ 339.5	$ 353.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

terms of lower domestic costs for most imports of goods and services, this is counterbalanced by its negative effects on U.S. exports which becomes less and less competitive as the dollar strengthens.

Under ordinary circumstances, a strong dollar would be expected to benefit other countries, particularly the major exporting nations, by making their exports cheaper in dollar terms, thus stimulating sales of their products in the United States and in other dollar-denominated markets. But this time around in the face of one of the more protracted slumps in the U.S., the usual surge in U.S. imports has not taken place. Further, other export markets are also weak as a result of the global economic malaise.

But there is another perverse effect of the strong dollar overseas as well. The industrial countries have struggled to strike a balance between their domestic goals of restraining inflation and reducing unemployment on the one hand, and the necessity to restrict the outflow of capital and defend their currencies' exchange rate on the other. Complicating the already difficult task of meeting these diverse goals is the fact that oil prices are denominated in dollars, and as the dollar has strengthened (see Chart I), the cost of oil in other currencies has also risen (see Chart II).

For example, whereas the average selling price of OPEC oil in dollar terms fell by two per cent

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/3/82)	145,031	– 1,599	+18,517
New York City (11/3/82)	38,016	– 752	+ 6,439
Commercial Paper (11/3/82)	170,369	+ 294	+ 6,407

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
	Latest Week	Change Since	
Weekly Reporting Large Commercial Banks		Week Ago	Year Ago
Nationwide (11/3/82)	217,132	+ 279	+26,988
New York City (11/3/82)	61,571	– 100	+ 6,452

	Total Loans Gross Adjusted		
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (11/3/82)	503,720	+ 3,976	+43,524
New York City (11/3/82)	121,753	+ 1,981	+12,217

Financial Markets

	Friday 11/19/82	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.30%	0.00	– 2.05
180-Day Bills†	8.70	+ .05	– 2.59
Longest Bills†	8.95	+ .25	– 2.60
Recent Issues:			
$9\frac{3}{4}$s 10/31/84	9.75	– .05	
$12\frac{1}{4}$s 9/30/86	10.25	– .05	
$10\frac{1}{2}$s 11/15/92	10.40	– .15	
$10\frac{3}{8}$s 11/15/12	10.36	– .09	
Municipals:			
Bond Buyer–20 Bond Index* (11/18/82)	10.20%	+ .28	– 1.51
Blue List Total ($ Million)	$1,390	+ $161	+ $ 403
30-Day Visible Supply ($ Million)	$5,756	+ $137	+ $3,539
Total	$7,146	+ $298	+ $3,942
Corporates:			
Moody's Aa Composite (11/18/82)	12.49%	– .01	– 2.21
30-Day Visible Supply ($ Million) ‡	$1,370	+ $488	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,021.25	– 18.67	+ 168.32
Transportation	433.15	– 11.69	+ 54.83
Utilities	119.37	– .05	+ 7.95
65 Stocks	399.24	– 7.38	+ 55.35
Standard and Poor's 500 Stocks	137.02	– 2.51	+ 15.31
N.Y.S.E. Composite Index	79.32	– 1.37	+ 8.33
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,980	–11,780	+ 35,374

* 46% Taxable equivalent 18.89%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/19/82	Week Ago
Overnight	9.25%	9.00%
1 month	9.50	9.50
3 month	9.75	9.69
6 month	10.00	9.88
1 year	10.31	10.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.55%	12.45%
Long Term (7 to 15 yrs.)	12.60	12.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/19/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02014	49.65
Canada	.8188	1.2213
Denmark	.1121	8.9205
France	.1388	7.2050
Germany	.3923	2.5490
Italy	.0006809	1468.50
Japan	.003857	259.25
Mexico	.007407	135.00
Netherlands	.3600	2.7780
Switzerland	.4572	2.1870
U.K.	1.6182	.6180

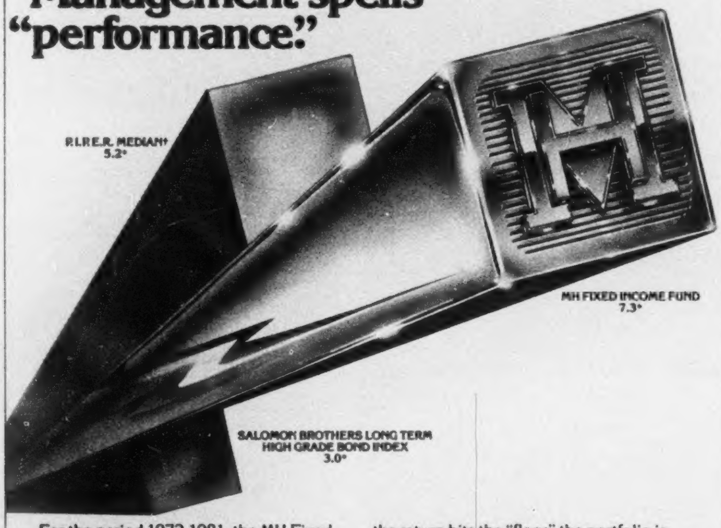
between early June and mid-November, it rose by almost 16 per cent to holders of French francs, adding to that country's economic burdens. What is more, the need to sell increasing amounts of domestic currencies for dollars in order to purchase imported petroleum has intensified downward pressures on their exchange rates. Yet the universal use of oil as an energy source, lubricant and industrial feedstock makes it a key commodity in world trade. Hence, any attempt by an oil importing nation to restrict the inflow of oil supplies would have immediate and direct economic consequences.

. . . Means Deeper Water Abroad

The negative effects of the strong dollar on the other industrial countries has been ameliorated to some degree by other factors. Most industrial countries have been able to reduce oil imports both as a result of energy conservation policies and their domestic recessions. In the first seven months of this year, the volume of oil imported by France and Germany was almost 14 per cent and ten per cent below the same period in 1981 respectively. Japan, whose economy probably grew by about two to three per cent this year, reduced its volume of oil imports for the first seven months of 1982 by over seven per cent from the same period last year. Another favorable factor is that in many countries, exports, though weak, have fallen less than imports in both volume and value terms. Not only have the prices of many imports (particularly commodities) fallen sharply, but the volume of imports required for diminished economic activity has declined as well.

Nonetheless, the inflationary impact of the strong dollar through its effect on domestic oil prices abroad has been an important obstacle to reducing inflation. This has required the governments of the developed countries to maintain their anti-inflationary economic policies in the face of rising unemployment, extending their recessions.

The Manufacturers Hanover track record in Fixed Income Management spells "performance."



For the period 1972-1981, the MH Fixed Income Fund delivered far greater returns than the Salomon Bros. Index and the P.I.P.E.R. Median.

The reason: The Manufacturers Hanover approach to investment management. You see, we believe in *active* management.

This approach allows us to choose from a variety of innovative products to take advantage of prevailing market conditions while keeping a client's investment objectives firmly in mind.

For example, Manufacturers Hanover went beyond the concept of bond immunization to that of contingent immunization. This allows our portfolio managers to actively trade bonds, as long as the overall rate of return remains above a predetermined "floor." If the return hits the "floor," the portfolio is immunized to lock in the original targeted yield.

While contingent immunization does not guarantee the return, long term simulation, historic analyses and Manufacturers Hanover's actual experience indicate a likelihood of maintaining the floor with a high degree of probability.

It is this experience, combined with our investment philosophy, that has enabled us to outperform the averages. Just look at our ten year performance.

To learn how the Manufacturers Hanover active approach to pension fund management can affect your plan, contact William C. Petty, III, Vice President, at (212) 957-0760. Or write to him at the address below.

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*These numbers are annual time-weighted rates of return for the ten year period ending December 31, 1981
†Pension and Investments Performance Evaluation Report–Pooled Fixed Income Funds of Banks and Insurance Companies

85350-2 11/29/82

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 29, 1982

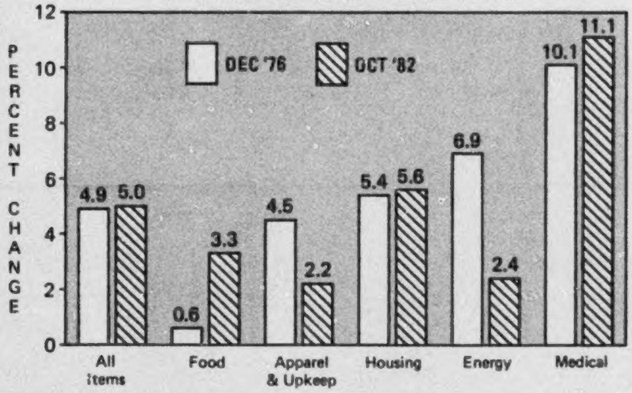
VOLUME XIX, NUMBER 48

Inflation Is The Silver Lining . . .

Along with lower interest rates, the only good news coming out of the current recession is the marked deceleration in the rate of inflation. In the 12 months ending in October, consumer prices increased by only five per cent—about the smallest over-the-year rise since 1976, and less than half the pace posted a year earlier. What is more, further abatement is likely, since prices of products ready to be sold to retailers advanced only slightly in October.

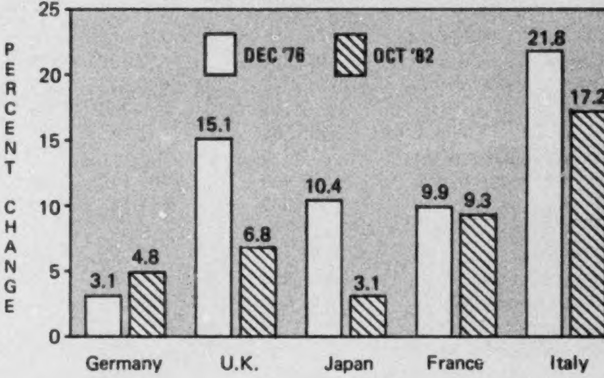
But this year's improvement pales when the underlying economic conditions are examined and compared with the situation prevailing in 1976. Whereas this time much of the drop in inflation was undoubtedly due to the long and severe recession, six years ago the U.S. economy was booming. It was in its second year of a rebound from a 16-month long recession which ended in March, 1975. In the fourth quarter of 1976, real GNP was 4.4 per cent higher than in the fourth quarter of 1975, in contrast to the 2.1 per cent decline posted in the past four quarters. At the end of 1976, housing starts were running more than 60 per cent higher than today, while Detroit was selling almost twice as many cars. Nonagricultural businesses added 2.4 million workers to their payrolls in 1976, while 2.3 million positions have been eliminated in the past 12 months.

CHART I
THE CONSUMER PRICE INDEX AND
SELECTED COMPONENTS
(PERCENT CHANGE FROM A YEAR AGO)



Nonetheless, some similarities are apparent upon examining the trend of the components of the CPI. As shown in Chart I, food prices went up much less than average in 1976, while the same is true this year. Also, both times the cost of housing rose by about 5½ per cent. Each time, home prices appreciated but while financing costs dropped by almost one per cent in 1976, in the past 12 months they increased by 1.6 per cent. However between December, 1975 and December, 1976, mortgage interest rates hovered around nine per cent, while in the past year they peaked at a record 17½ per cent before falling to about 14 per cent currently. Finally, cost of medical care was the fastest rising component of the price index in 1976, increasing at a 10.1 per cent rate of rise—close to the pace of this year.

CHART II
CONSUMER PRICES IN SELECTED COUNTRIES
(PERCENT CHANGE FROM A YEAR AGO)



. . . In The Recession Cloud

The one area which differs significantly is energy. Today, the rise in energy prices has virtually ceased. Demand for petroleum continues its fourth year of decline due to conservation efforts by consumers and industry alike, leaving ample supplies in the marketplace. Spot oil prices have softened in response to reduced demand. Domestic refiners are leaving growing chunks of capacity idle while attempting to move sizable oil inventories. Prices at the gasoline pumps are declining (before seasonal adjustment), and are significantly lower today than

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last year. Residential heating oil prices have been falling with the decline accelerating since September, despite widespread forecases of severe winter weather conditions. In 1976, however, the effects of the quadrupling of OPEC prices in 1973 were still filtering through the system, raising substantially the cost of home heating fuel and electricity.

But although the current rate of inflation is less than half that of a year ago, it is still difficult for many workers to get ahead in terms of real spendable pay. Since the start of this recession, many saw their incomes slashed as working hours were reduced. Others were forced to accept part-time work or were laid off entirely. Ominously, the fastest rising component of personal incomes in the past year was transfer payments, which include unemployment insurance!

In October, wages and salaries advanced by only 2.8 per cent year-over-year, significantly below the rate of inflation. As a result, even after the tax cut, many workers' earnings had less buying power in October than a year earlier. Manufacturing workers suffered the most, since their wages and salaries, without adjustment for inflation actually dropped by four per cent in October, year-over-year. Unless the employment situation and incomes improve, attitudes will not brighten, and consumers will not loosen their purse strings. The more people continue

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 11/17/82	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	143.880	+ 2.722	+ 9.085
Loans to Depository Inst.	.742	+ .022	+ .185
Float	2.705	– .038	– .666
Total Reserve Bank Credit	156.762	+ 2.217	+ 7.518
Treasury Deposits with Federal Reserve Banks	3.108	– .148	– .107
Currency Outside Banks	135.000	+ 1.212	+ 8.982
Member Bank Reserves:			
Required	41.130	+ 1.165	+ .127
Excess (Deficiency)	.400	– .020	+ .239
Total Reserves Held	41.530	+ 1.145	+ .366
Net Borrowed Reserves	.106	+ .046	– .062
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	103.372	+ .952	+ 8.413

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (11/10/82)	473.1	+ 16.7‡	+ 8.5‡
M2 (October '82)	1,967.6	+ 9.2	+ 10.0
M3 (October '82)	2,381.5	+ 10.6	+ 10.7
L (July '82)	2,830.5	+ 12.7	+ 11.9

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 11/24/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.80%	8.05%	8.15%
* Federal Agencies	8.00	8.30	8.80
* Project Notes—Taxfree (46% Taxable Equivalent)	6.94	8.33	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.60	8.90	9.70

‡Finance Company Paper—Prime	
5- 14 days	8.00%
15- 29 days	7.75
30- 59 days	8.25
60- 89 days	8.38
90-179 days	8.38
180-239 days	8.25
240-270 days	8.25

‡* Bankers' Acceptances	
Dec.	8.40%
Jan.	8.40
Feb.	8.45
Mar.	8.50
Apr.	8.60
May	8.55

‡Industrial Paper—Prime	
30- 89 days	8.13%
90-120 days	8.38

†Federal Funds Effective Rate 8.25%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,081	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,478	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.0	2.1	2.2
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Total Business Inventories†	Sep '82	$ 515.3	$ 514.6	$ 515.3
Total Business Sales†	Sep '82	$ 338.4	$ 339.5	$ 353.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

to hold off their purchases, the further the recovery will be postponed into the future.

Overseas The Same Factors Work . . .

Outside of the United States, other industrial countries have also managed to slow the pace at which their consumer prices are rising. Indeed, as in the U.S., several of the principal industrial countries have lower inflation rates today than they did in 1976 (see Chart II on page 1). West Germany's inflation rate, though higher than in 1976, is still at very low levels compared with most of its trading partners. But the most dramatic improvement has been in the last two years. In most of the developed countries, the rate of consumer price inflation reached its most recent peak in the second quarter of 1980 and has receded sharply since then.

For example, the United Kingdom inflation rate fell by 63 per cent between second quarter 1980 and third quarter 1982. However, because prices were rising at a 22 per cent clip 2¼ years ago, the drop left British inflation at a still high eight per cent. Japan has shown the greatest improvement in its inflation rate over the past two years. In the second quarter of 1980, Japan's inflation rate averaged 8.4 per cent. By the second quarter of this year, the inflation rate had slowed to 2.4 per cent, an improvement of over 70 per cent—much of which traced to low domestic demand, strong exports and

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/10/82)	144,257	– 774	+17,818
New York City (11/10/82)	38,695	+ 679	+ 7,723
Commercial Paper (11/10/82)	169,302	– 1,067	+ 3,072

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/10/82)	216,833	– 118	+27,627
New York City (11/10/82)	61,312	– 79	+ 6,464

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/10/82)	499,430	– 4,277	+39,576
New York City (11/10/82)	119,331	– 2,422	+ 9,518

Financial Markets

	Wednesday 11/24/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.15%	– .50	– 2.30
180-Day Bills†	8.50	– .45	– 2.68
Longest Bill†	8.95	– .21	– 2.57
Recent Issues:			
9 7/8s 11/30/84 (When Issued)	9.78	NA	
12 1/4s 9/30/86	10.40	+ .15	
10 1/2s 11/15/92	10.60	+ .20	
10 3/8s 11/15/12	10.52	+ .16	
Municipals:			
Bond Buyer–20 Bond Index*	10.16%	– .04	– 1.82
Blue List Total ($ Million)	$1,392	+$ 137	+ $ 202
30-Day Visible Supply ($ Million)	$6,920	+$1,512	+ $4,710
Total	$8,312	+$1,649	+ $4,912
Corporates:			
Moody's Aa Composite (11/23/82)	12.54%	– .05	+ 2.05
30-Day Visible Supply ($ Million) ‡	$1,360	+$ 57	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,000.00	– 27.50	+ 121.86
Transportation	421.01	– 12.67	+ 36.45
Utilities	116.60	– 2.91	+ 4.36
65 Stocks	389.95	– 10.89	+ 38.64
Standard and Poor's 500 Stocks	133.88	– 4.05	+ 9.83
N.Y.S.E. Composite Index	77.60	– 2.07	+ 5.45
N.Y.S.E. Avg. Daily Vol. for Week (000's)	72,666	–15,266	+ 21,082

* 46% Taxable equivalent 18.81%.

‡Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Wednesday 11/24/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.38%	9.25%
1 month	9.00	9.50
3 month	9.56	9.75
6 month	9.88	10.00
1 year	10.13	10.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.40%	12.55%
Long Term (7 to 15 yrs.)	12.45	12.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/24/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02021	49.49
Canada	.8161	1.2254
Denmark	.1125	8.8850
France	.1393	7.1775
Germany	.3944	2.5353
Italy	.0006843	1461.40
Japan	.003958	252.65
Mexico	.007805	128.13
Netherlands	.3600	2.7775
Switzerland	.4581	2.1827
U.K.	1.5956	.6267

a high savings rate. In contrast, West Germany, whose economic policies have had an anti-inflationary bias for many years, had an average inflation rate of 5.8 per cent in the second quarter of 1980—one of the lowest in Europe. By the third quarter of this year, the rate of inflation had descended—but only by about nine per cent, to 5.2 per cent.

Most of the industrialized nations have felt it necessary to follow the lead of the United States in adopting anti-inflationary economic policies, reflecting the predominance of this country and its currency in global economic activity. Those few countries which assigned a lower priority to fighting inflation have seen their currencies plunge as their domestic inflation remained high, while their trading partners' inflation rates slowed. A case in point is France. Concerned about low growth and burgeoning unemployment, the Mitterrand government adopted a series of expansionary measures which led to rising inflation, a deteriorating trade balance and a falling exchange rate for the franc.

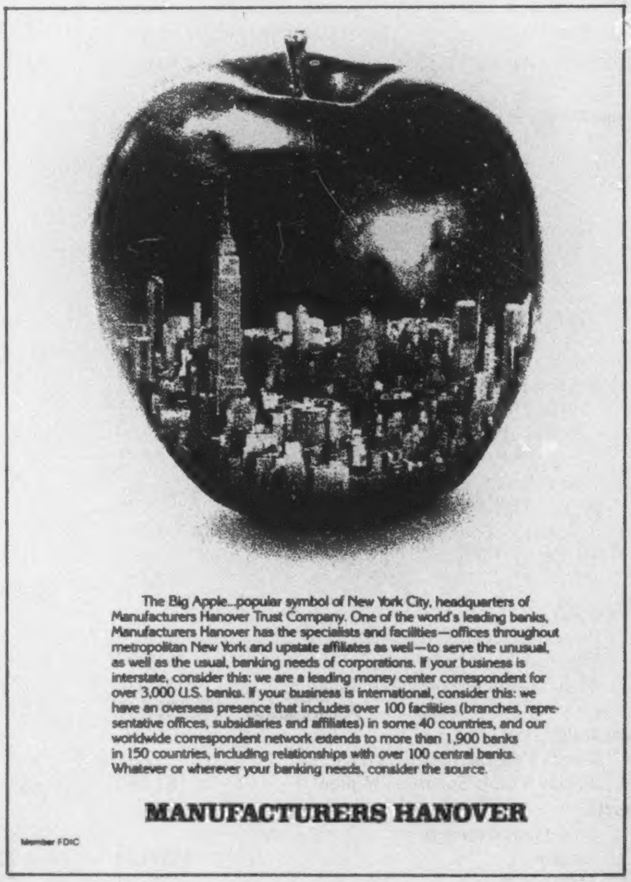
The French government has taken remedial measures in an attempt to stanch the financial hemorrhage—but only recently. As a consequence, the French inflation rate showed virtually no improvement between the second quarter of 1980 and the second quarter of 1982, fluctuating within a narrow margin of 12.7 per cent to 14.1 per cent.

. . . To Slow The Pace Of Inflation

The restrictive economic policies which have led to the global recession have played the major role in the general slowing of inflation abroad. Wage demands have been more modest in the face of falling industrial production, rising unemployment and massive business failures. Commodities prices have plunged as output and consumption have eased. In addition, this year's bumper harvests in many countries of the free world on top of already high reserve stocks have taken the inflationary bite out of food prices.

But not all economic developments are working to reduce inflation. In many industrial countries, government budget deficits, swollen by the social costs of high unemployment, are a latent inflationary factor. Furthermore, although oil production by OPEC and other oil-exporting nations in excess of global demand has actually reduced the dollar cost of oil, in terms of those currencies that have depreciated against the dollar, the cost has actually risen, making some countries' battle against inflation more difficult (Financial Digest—November 22, 1982). In Italy, the heavy dependence of that country on imported energy as well as the continued commitment to a national policy of wage increases tied to the inflation rate has made the battle to reduce consumer price inflation more difficult. Nonetheless, tighter credit policies and the domestic recession have resulted in a slowing of the Italian inflation rate from 20.9 per cent in the second quarter of 1980 to 15.4 per cent by second-quarter 1982.

The recent decline in global interest rates may allow a modicum of economic expansion—but at the expense of a weakening of the stringent economic policies of the last two years which were largely responsible for restraining the inflation rate. However, the deleterious effects of high inflation are still too fresh in people's memories for governments to return soon to the easy credit policies which might result in a booming recovery—and another recession.



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The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, DECEMBER 6, 1982 VOLUME XIX, NUMBER 49

The Federal Reserve . . .

As if the current recession had not already claimed a sufficient number of casualties in terms of business failures, jobless workers and corporate profits, it has recently claimed one more (but whose loss will not be mourned): The Federal Reserve's strict monetarist operating procedures. Despite a strong surge in the growth of M1 in recent months, the Fed has made little effort to restrict the size of this bulge, preferring instead to do quite the opposite by generously providing the reserves necessary to support such rapid deposit growth. While these actions probably ensure that M1 will remain far above target over the balance of the year, they should also forestall the emergence of any prolonged upward pressures on reserve-related interest rates. And with factory orders, industrial production and capacity utilization rates still dropping while the jobless rate just hit another postwar high (10.8 per cent), this may be just what the economy needs.

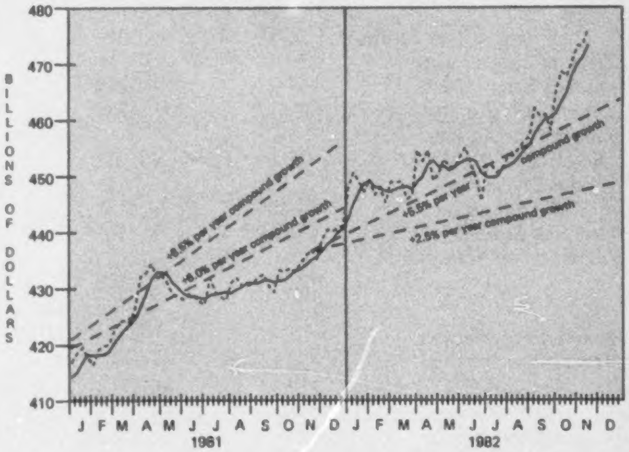
Indeed, the policy-setting Federal Open Market Committee did not even bother to set an interim, fourth quarter M1 growth target when it met on October 5. Because of the maturing of more than $30 billion of All-Savers certificates in October, some of the proceeds of which will at least temporarily pass through M1, as well as enhanced liquidity preferences among the public due to heightened economic and financial uncertainties, the Fed decided that M1 is now an unreliable indicator of the true direction of either the economy or prices—a not unreasonable assessment. For during the past month alone, as both the soggy pace of economic activity and exceptionally low rates of inflation persisted, M1 expanded at a seasonally adjusted 23.2 per cent annual rate, soaring more than $15 billion above its upper target boundary (see chart).

But tightening the monetary reins at this point would have only plunged an already weakened economy into an even deeper recession. Thus, the Fed found itself between the horns of a dilemma, forced to choose between the dictates of monetarism, which has served it so well in the past, and the needs of the real economy, which remains depressed (Financial Digest—September 13, 1982). It chose the latter, placed the former on hold and, in so doing, replaced its strict operating rules with flexible, policymaker discretion.

. . . Modifies The Course

With the link between trends in M1 and monetary policy severed, the Fed began to pay much closer attention to interest rates. Tired of waiting for the long-predicted consumer-led recovery to begin and freed from the bondage of responding to sharp upward gyrations in the money supply numbers, the central bank launched the opening stages of its own Fed-led recovery. It repeatedly cut the discount rate, while stepping up the provision of nonborrowed reserves to the banking system, thereby prompting a good-sized drop in interest rate levels. But rates have not only moved lower, they have also become much more stable under the modified policy approach, perhaps an indication that interest rates do matter. The average monthly swing in the Federal funds rate, which is directly influenced by central bank policy actions, has been limited to less than 45 basis points since the beginning of September, only about one-third the average monthly change in the funds rate during the 35 months between September, 1979 and August, 1982.

MONEY SUPPLY, M1
FOUR-WEEK MOVING AVERAGE (LINE)
VS. WEEKLY FIGURES (DOT)



The major beneficiary of lower, and more stable, interest rates has been the bond markets. With some semblance of short-term interest rate stability

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restored and an upward sloping yield curve now in place, the capital markets have finally been able to establish firmer footings. As a result, so, too, has some of corporate America—which has finally begun the task of reducing its dependence on high-cost, short-term debt by funding its massive overhang of short-term liabilities in the long-term capital markets. In October alone, with new issue volume in the corporate bond market soaring above $6 billion (compared with a monthly average of only $1.8 billion during the first six months of 1982), commercial and industrial loans outstanding declined by a seasonally adjusted $4.6 billion, or 2.1 per cent. This was the largest one-month percentage decrease since early 1976, and the third largest on record. What is more, nonfinancial commercial paper is also being retired at a rapid clip; total outstandings have declined for three consecutive months and in October, stood almost ten per cent below their May, 1982 peak.

Until this process got underway, the pace of economic activity, and prospects for a sustained recovery, remained vulnerable to fluctuations in short-term credit demands and interest rates. Now, however, this vulnerability is being diminished, as short-term business credit demands fade, short-term interest rates trend even lower, the bond markets establish even firmer footings and the funding of more short-term debt occurs. And while the poten-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/24/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	145.144	+ 1.264	+ 9.700
Loans to Depository Inst.	.467	− .275	+ .130
Float	2.264	− .462	− 1.265
Total Reserve Bank Credit	156.798	+ .015	+ 7.443
Treasury Deposits with			
Federal Reserve Banks	2.871	− .237	+ .030
Currency Outside Banks	135.677	+ .685	+ 9.138
Member Bank Reserves:			
Required	40.858	− .272	+ .095
Excess (Deficiency)	.251	− .170	− .071
Total Reserves Held	41.109	− .442	+ .024
Net Free Reserves	.016	+ .101	− .161
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	103.541	+ .169	+ 9.542
		% Change Since	
Monetary Aggregates†		**Three Months Ago***	**Year Ago**
M1	474.5	+ 17.3‡	+ 8.9‡
M2 (October '82)	1,967.9	+ 9.3	+ 10.0
M3 (October '82)	2,381.7	+ 10.6	+ 10.7
L (August '82)	2,858.9	+ 12.2	+ 11.7

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 12/3/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.40%	7.70%	7.95%
* Federal Agencies	8.25	8.58	9.00
* Project Notes—Taxfree (46% Taxable Equivalent)	7.50	8.52	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.75	8.90	9.75

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.63%	Jan.	8.40%
15- 29 days	8.63	Feb.	8.45
30- 59 days	8.50	Mar.	8.45
60- 89 days	8.50	Apr.	8.60
90-179 days	8.38	May	8.55
180-239 days	8.38	Jun.	8.50
240-270 days	8.50		

‡Industrial Paper—Prime			
30- 89 days	8.38%	†Federal Funds	
90-120 days	8.50	Effective Rate	8.95%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,081	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,478	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.0	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Oct '82	6.0%	2.4%	4.8%
Change in Producer Prices*	Oct '82	6.0%	− 1.2%	7.2%
Civilian Employment (Thousands of Persons)†	Nov '82n	99,032	99,093	100,172
Unemployment as % of Civilian Labor Force†	Nov '82n	10.8%	10.4%	8.3%
Personal Income*	Oct '82	$ 2,621	$ 2,602	$ 2,487
Leading Indicators Composite Index (1967=100)†	Oct '82n	131.4	131.1	128.3
Industrial Production Index (1967=100)†	Oct '82	136.3	137.4	149.1
Net Change in Consumer Installment Credit†	Sep '82	$ 1.09	$ 0.07	$ 2.98
U.S. Merchandise Trade Balance†	Oct '82n	−$ 5.33	−$ 4.19	−$ 5.03
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Oct '82	1,122	1,111	854
New Construction Expenditures*	Oct '82n	$ 234.9	$ 232.4	$ 230.8
Total Business Inventories†	Sep '82	$ 515.3	$ 514.6	$ 515.3
Total Business Sales†	Sep '82	$ 338.4	$ 339.5	$ 353.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

tial for a clash between Federal government and corporate credit demands will exist throughout much of 1983, a good-sized economic recovery will help reduce Federal borrowing requirements. This suggests that even fiscal policy, and the huge red ink totals which it has produced, may soon find its course modified—for the better, for a change.

In International Trade . . .

The recent meeting of the 88 member countries of the General Agreement on Tariffs and Trade (GATT) in Geneva, Switzerland occurred at a time of exceptional economic uncertainty and disarray. The United States is in the deepest recession since the 1930s, when international trade was severely damaged by protectionism. Most of the other countries which are members of GATT are either in recession or experiencing the lowest rates of real growth in many years. Unemployment in the developed countries is now estimated to be at 32 million, about nine per cent of the labor force.

Although it was the 38th meeting of the GATT membership, it was the first meeting of top-level trade ministers under GATT auspices since 1973, the year of the first OPEC oil price jump which permanently changed world trade patterns. Further, it was the first time since the GATT meetings were established in 1947 that the agenda covered the entire spectrum of international trade policy instead

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/17/82)	142,045	– 2,214	+14,254
New York City (11/17/82)	37,535	– 1,160	+ 6,366
Commercial Paper (11/17/82)	168,844	– 458	+ 1,204

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/17/82)	216,256	– 565	+26,204
New York City (11/17/82)	61,315	+ 3	+ 6,348
	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/17/82)	500,349	+ 971	+38,748
New York City (11/17/82)	120,423	+ 1,245	+11,179

Financial Markets

	Friday 12/3/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.12%	– .07	– 2.20
180-Day Bills†	8.73	+ .06	– 2.26
Longest Bills	9.00	– .05	– 2.53
Recent Issues:			
$9\frac{7}{8}$s 11/30/84	9.68	– .10	
$12\frac{1}{4}$s 9/30/86	10.25	– .15	
$10\frac{1}{2}$s 11/15/92	10.47	– .13	
$10\frac{3}{8}$s 11/15/12	10.30	– .22	
Municipals:			
Bond Buyer–20 Bond Index* (12/2/82)	10.23%	+ .07	– 1.95
Blue List Total ($ Million)	$1,524	+$ 132	+ $ 273
30-Day Visible Supply ($ Million)	$4,066	–$2,854	+ $1,897
Total	$5,590	–$2,722	+ $2,170
Corporates:			
Moody's Aa Composite (12/2/82)	12.48%	+ .03	– 2.20
30-Day Visible Supply ($ Million) ‡	$1,200	–$ 210	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,031.36	+ 24.00	+ 138.67
Transportation	445.37	+ 20.46	+ 50.34
Utilities	116.74	+ .60	+ 3.82
65 Stocks	403.67	+ 11.22	+ 45.94
Standard and Poor's 500 Stocks	138.69	+ 3.81	+ 12.43
N.Y.S.E. Composite Index	80.05	+ 1.91	+ 6.81
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,382	+18,904	+ 33,340

* 46% Taxable equivalent 18.94%.

‡Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 12/3/82	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.88%	8.38%
1 month	9.19	9.00
3 month	9.44	9.56
6 month	9.63	9.88
1 year	10.00	10.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.30%	12.40%
Long Term (7 to 15 yrs.)	12.35	12.45

FOREIGN EXCHANGE SPOT RATES New York Opening (12/3/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02090	47.85
Canada	.8079	1.2378
Denmark	.1167	8.5725
France	.1446	6.9138
Germany	.4103	2.4375
Italy	.0007081	1412.20
Japan	.004043	247.33
Mexico	.008000	125.00
Netherlands	.3728	2.6825
Switzerland	.4787	2.0888
U.K.	1.6378	.6106

of a limited number of specific items. The trade conference was proposed two years ago by the United States in recognition of the fact that protectionist sentiments, not only in the United States but in many other countries, were increasing under the pressure of slowing rates of real growth, high inflation and rising unemployment.

The subsequent two years have only served to increase both the economic pressures and the appeal of protectionism. Even though the threat of inflation has abated in the last two years, global recession has intensified and many countries and industries find themselves in financial difficulties. High interest rates have at the same time slowed world trade and increased the proportion of foreign exchange earnings which must be diverted from imports and investment to service existing external debts. In many countries, external debt has reached unprecedented levels not only in dollar terms, but as a percentage of their foreign exchange earnings. For example, Brazil, whose external debt is estimated at $72 billion will have to make $16.3 billion in principal and interest payments in 1983—about 70 per cent of its expected export earnings for that year. Thus, outstanding debt joins unemployment as a major force encouraging governments toward protectionist measures.

. . . GATT Stays The Course

Last year the value of world trade was one per cent less than the previous year and showed no growth at all in volume terms. The developing countries (LDCs), many of which export one, or only a few, basic commodities, have been particularly hard-hit in this respect. What is more, the possibility of growing protectionist legislation against their exports is a further threat to the ability of the LDCs to both pay for essential imports and meet their external financial obligations.

Constrained by their foreign debts, many countries, particularly developing countries and some in Eastern Europe have severely restricted their imports either voluntarily or as part of an agreement with the International Monetary Fund in order to conserve foreign exchange. Although this policy reduces external financing requirements, helps to improve the nation's balance of payments position and buys time to restructure debt, it is yet another factor contributing to the contraction of world trade.

The extent and depth of the worldwide economic malaise are apparent in the intensity of the debate at the GATT meeting which was extended for two days beyond its planned closing date. The vital importance of world trade as the most likely avenue for economic recovery made each participant at the Geneva meeting particularly sensitive to its own immediate national interests and intransigent in defending them, with the result that on many issues the GATT members were deadlocked. Given the many problems facing the world's trading nations at the present time, it is not surprising that the outcome of the GATT meeting was essentially a resounding vote for maintaining the status quo.

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, DECEMBER 13, 1982

VOLUME XIX, NUMBER 50

Productivity Gains Are . . .

Overlooked in the barrage of gloomy economic indicators released these days by Washington are two very welcome bits of good news. Productivity in the private business sector improved for the second quarter in a row. Corporate after-tax profits have also been increasing since the first quarter of 1982, despite sluggish sales, drastic cuts in production and a significant reduction in the rate of inflation.

Productivity rose at a seasonally adjusted annual rate of 4.2 per cent during the July-September period, compared with the previous quarter. Output per hour traditionally rises toward the end of recessions or during early stages of recovery—as businessmen speed up production lines before they start rehiring employees—but last quarter's gain was, with only one exception, the largest in any recession since 1950.

This improvement is likely to have a favorable impact on many related economic indicators. It has already contributed to the decline in the rate of inflation in general and the underlying or "core" rate of inflation (the annual rise in labor and capital costs) in particular. As a result, the buying power of those currently working has improved and the erosion of purchasing power of those living on fixed incomes or savings has slowed.

Similarly, the rise in productivity played a major role in last quarter's improvement in corporate profits. It offset—at least partially—the rise in labor costs, which on average represent more than two-thirds of companies' expenses. Thus, after-tax profits increased at a seasonally adjusted $2.8 billion rate in the third quarter, following a $1.3 billion rise in the previous quarter. In addition, there were other contributors to the rise in profits. They included lower financing costs, reduced pay and/or benefits and a tight rein on expenses by most companies.

. . . A Mixed Blessing

But while this increased labor efficiency may be good news for corporate balance sheets, it is not such good news for those looking for jobs. In the last two quarters, many companies were able to expand output while cutting their labor force. But while the ranks of the unemployed swelled again last month, the employment picture did not deteriorate as much as it did in October. Most important, well over one-half of November's jobless rise was due to persons reentering the labor force—some seeking work just for the holidays. However, in view of the weak economy, most did not find jobs. Most of the decline in employment took place in the wholesale and retail sector, which traditionally hires the highest number of seasonal employees at this time of the year. If the labor force had remained the same, the jobless rate would have risen just 0.1 per cent to 10.5 per cent of the labor force.

Nevertheless, the dismal employment picture and the uncertainty regarding job prospects and security of many consumers have taken away much from the holiday spending spirit. Joblessness has touched more people than just those who are currently unemployed. In the past year, at least one out of five Americans has been unemployed for an average of 16 weeks. As a result of the depressed consumer spirits, retail sales for November—the month which marks the beginning of the Christmas selling season—were disappointing, rising only 0.5 per cent, excluding automobiles.

Interestingly, Christmas shopping has become a game of who can outwait whom. Consumers are delaying their purchases, hoping that if they wait long enough, hard-pressed merchants will have to give even deeper discounts. So, while retailers have been stretching out the Christmas promotion season—this year it began well before Thanksgiving—with every year the last minute shopping rush starts later, making the actual buying season shorter and shorter. Moreover, the drop in the rate of inflation has also taken away the incentive to spend. While as recently as two years ago, people had the attitude of "buy now, before prices go up"; now they wait for sales, turning to discount stores, off-price stores, thrift shops, factory outlets, flea markets and street vendors in search for bargains.

But there may be some hope for retail sales in the near future. According to the Conference Board, for the first time in four months, consumer confidence improved—albeit slightly—as people became a little

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more optimistic about their economic future. A larger number than in October expressed interest in buying cars, homes, major appliances and home furnishings, saying that they may buy in the next six months. This renewed optimism may have come just in time; the sooner consumers loosen their purse strings, the sooner they will lead the nation out of recession.

GNP Slips As Exports Stumble

As long as the dollar remains significantly overvalued against other major trading currencies, it is unlikely that the U.S. economy will receive any help from the export sector. In fact, a large portion of the recent decline in the real GNP is attributable to plunging U.S. exports. For example, from the second quarter of 1981 (just before the beginning of the present recession) to the end of the third quarter of this year, while U.S. GNP fell in real terms by almost $24 billion, U.S. real net exports fell by almost $19 billion. Thus, over 77 per cent of the decline in real net GNP was due to the fall in real exports, although they normally account for only about three per cent of GNP.

At the end of June, 1981, the trade-weighted value of the dollar was two per cent above its value in December, 1971, when the Smithsonian Agreement was reached. By September, 1982, the dollar was about 13½ per cent above the Smithsonian level. Over the past several weeks, the dollar has retreated from the record levels it reached in early November

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 12/1/82	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies			
Owned Outright & RPs	144.632	– .512	+ 9.161
Loans to Depository Inst.	.623	+ .156	+ .309
Float	3.442	+ 1.117	– .694
Total Reserve Bank Credit	157.671	+ .812	+ 7.450
Treasury Deposits with Federal Reserve Banks	3.255	+ .384	+ .227
Currency Outside Banks	135.210	– .467	+ 8.768
Member Bank Reserves:			
Required	41.361	+ .503	+ .128
Excess (Deficiency)	.561	+ .249	+ .155
Total Reserves Held	41.922	+ .752	+ .283
Net Free Reserves	.158	+ .081	– .100
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	103.318	– .223	+ 7.264

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	476.0	+ 17.1‡	+ 8.7‡
M2 (November '82)	1,986.1	+ 8.2	+ 9.7
M3 (November '82)	2,399.1	+ 7.3	+ 10.3
L (August '82)	2,858.9	+ 12.2	+ 11.7

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 12/10/82	3 Months	6 Months	1 Year
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‡Finance Company Paper—Prime	
5- 14 days	8.63%
15- 29 days	8.63
30- 59 days	8.63
60- 89 days	8.50
90-179 days	8.50
180-239 days	8.50
240-270 days	8.50

‡* Bankers' Acceptances	
Jan.	8.60%
Feb.	8.60
Mar.	8.70
Apr.	8.75
May	8.80
Jun.	8.70

‡Industrial Paper—Prime	
30- 89 days	8.63%
90-120 days	8.63

†Federal Funds Effective Rate 8.80%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,081	$ 3,045	$ 2,981
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U.S. Merchandise Trade Balance †	Oct '82	–$ 5.33	–$ 4.19	–$ 5.03
Plant and Equipment Expenditures*	1st Q'83n	$316.40(a)	$324.47(a)	$327.72
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New Construction Expenditures*	Oct '82	$ 234.9	$ 232.4	$ 230.8
Total Business Inventories†	Sep '82	$ 515.3	$ 514.6	$ 515.3
Total Business Sales†	Sep '82	$ 338.4	$ 339.5	$ 353.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

in spite of the fact that the U.S. still enjoys a real interest rate advantage over most of the other major developed countries. However, psychological factors appear to be working against the dollar. Not only is the widely expected U.S. economic turnaround slow in coming and thus more interest rate cuts are anticipated, but plummeting U.S. exports and rising imports have produced a sharp rise in the U.S. trade deficit this year. Further, the recovery expected for next year will generate an import surge before a weaker dollar benefits U.S. exports. Hence, the U.S. merchandise trade deficit next year will probably be substantially larger than even this year's $30 to $35 billion—perhaps as much as $60 billion.

Almost every sector of U.S. exports has been hard-hit this year. Through October, U.S. merchandise exports were eight per cent below the same period in 1981. Agricultural exports, which in 1981 amounted to 19 per cent of total U.S. exports, were running almost 15 per cent below last year's level during the first ten months of 1982. Much of this decline in agricultural exports is due to exceptionally good harvests in many parts of the world this year as well as the existence of large holdover stocks. Capital goods, which is the largest single category of U.S. exports (36 per cent of U.S. exports in 1981), fell over eight per cent for the January-October period of 1982 compared with the same period in 1981. For their part, consumer goods declined over nine per cent in the first ten months of 1982 compared with the same period in 1981.

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/24/82)	143,275	+ 1,467	+12,196
New York City (11/24/82)	37,657	+ 122	+ 4,523
Commercial Paper (11/24/82)	167,872	– 972	+ 1,246

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/24/82)	215,478	– 778	+25,103
New York City (11/24/82)	60,875	– 440	+ 5,843

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/24/82)	500,155	– 195	+35,929
New York City (11/24/82)	119,726	– 727	+ 7,896

Financial Markets

	Friday 12/10/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.20%	+ .08	– 3.00
180-Day Bills†	8.80	+ .07	– 3.40
Longest Bills	9.08	+ .08	– 3.52
Recent Issues:			
$9^{7}/_{8}$s 11/30/84	9.80	+ .12	
$12^{1}/_{4}$s 9/30/86	10.45	+ .20	
$10^{1}/_{2}$s 11/15/92	10.58	+ .11	
$10^{3}/_{8}$s 11/15/12	10.58	+ .28	
Municipals:			
Bond Buyer—20 Bond Index* (12/9/82)	10.13%	– .10	– 2.76
Blue List Total ($ Million)	$1,415	–$ 109	– $ 44
30-Day Visible Supply ($ Million)	$2,084	–$1,982	– $344
Total	$3,499	–$2,091	– $388
Corporates:			
Moody's Aa Composite (12/9/82)	12.47%	– .01	– 2.37
30-Day Visible Supply ($ Million) ‡	$1,150	–$ 50	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,018.76	– 12.60	+ 132.25
Transportation	438.92	– 6.45	+ 47.81
Utilities	118.17	+ 1.43	+ 6.19
65 Stocks	399.73	– 3.94	+ 44.90
Standard and Poor's 500 Stocks	139.57	+ .88	+ 14.64
N.Y.S.E. Composite Index	80.49	+ .44	+ 8.06
N.Y.S.E. Avg. Daily Vol. for Week (000's)	94,054	+11,672	+ 48,266

* 46% Taxable equivalent 18.76%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/10/82	Week Ago
Overnight	9.00%	8.88%
1 month	9.38	9.19
3 month	9.63	9.44
6 month	9.81	9.63
1 year	10.06	10.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.25%	12.30%
Long Term (7 to 15 yrs.)	12.30	12.35

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/10/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02079	48.10
Canada	.8100	1.2345
Denmark	.1159	8.6300
France	.1441	6.9400
Germany	.4086	2.4473
Italy	.0007075	1413.40
Japan	.004098	244.00
Mexico	.007519	133.00
Netherlands	.3711	2.6950
Switzerland	.4805	2.0810
U.K.	1.6169	.6185

A Fact from Manufacturers Hanover:

WE'RE INTRODUCING A LIQUID INVESTMENT THAT'S MORE SOLID THAN ANY MONEY MARKET FUND.

The facts are in.

On December 14, Manufacturers Hanover will introduce a high-yield investment with features that no money market fund can match. The new Money Manager Account. It's more liquid, because you can make withdrawals whenever you want. More solid, because your money is insured by the FDIC.* And more convenient, because you can bank at over 200 Manufacturers Hanover branches. That's more than any money market fund could ever be.

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Mail to:

MONEY MANAGER ACCOUNT
Branch Banking Customer Services
Manufacturers Hanover Trust
C.S. 1200
Hicksville, NY 11802

☐ Please send me all the facts about the new Money Manager Account.

☐ Please have someone call me between the hours of_____ and _____with all the facts about the new Money Manager Account.

Name____________________

Telephone Number____________________

Address____________________

City____________________

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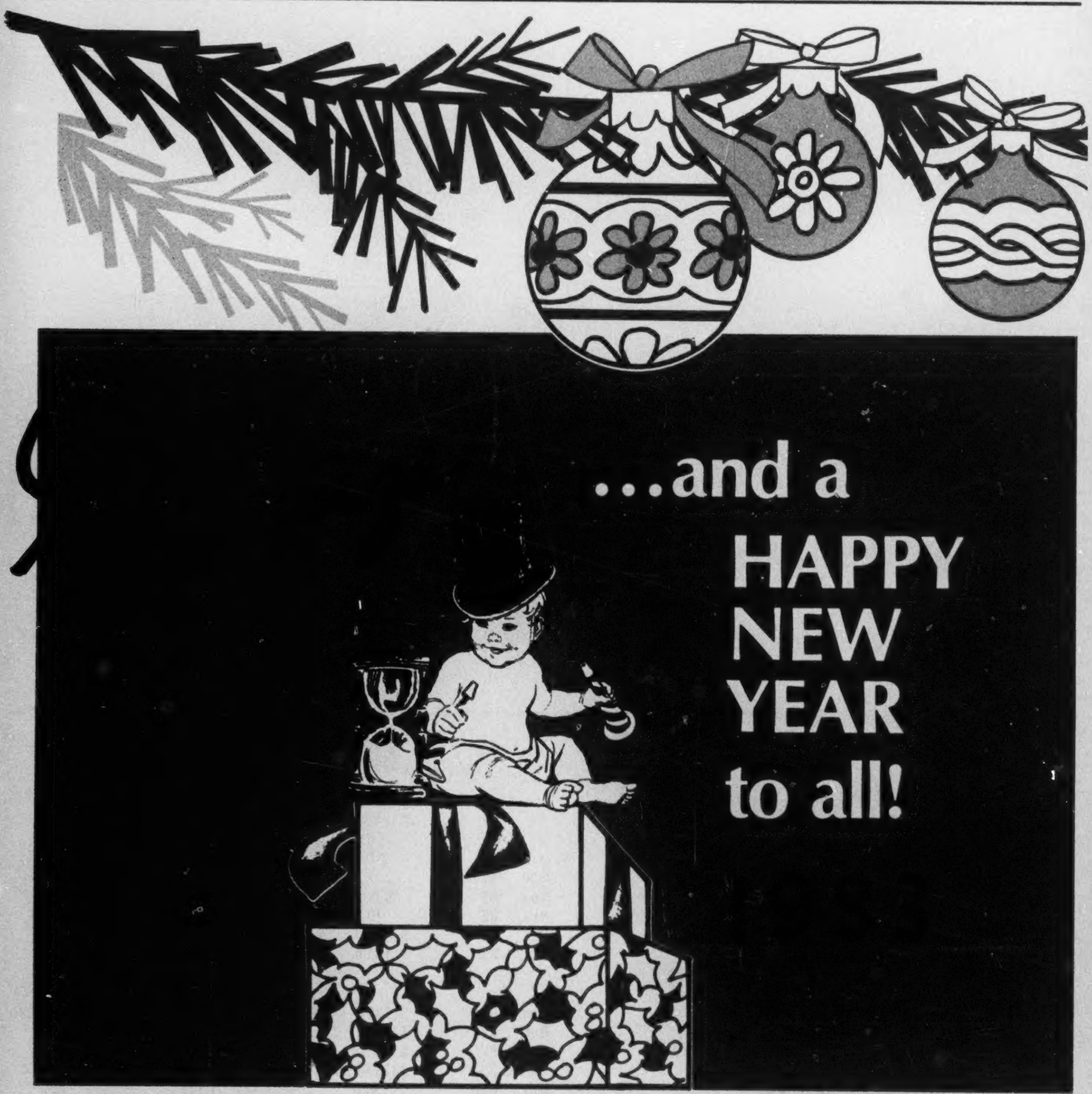
Member FDIC Further information about our savings plans is available at any branch. *Total deposits insured to $100,000.

B5350-2 12/20/82

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

DECEMBER 20, 1982/DECEMBER 27, 1982
VOLUME XIX, NUMBER 51



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350 Park Avenue, New York, NY 10022

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Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/8/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	144.451	– .181	+ 8.621
Loans to Depository Inst.	.439	– .184	– .177
Float	3.180	– .197	+ .304
Total Reserve Bank Credit	157.302	– .357	+ 7.840
Treasury Deposits with Federal Reserve Banks	3.034	– .221	+ .368
Currency Outside Banks	135.748	+ .521	+ 9.042
Member Bank Reserves:			
Required	40.626	– .735	+ .063
Excess (Deficiency)	.253	– .269	– .040
Total Reserves Held	40.879	– 1.004	+ .023
Net Free Reserves	.026	– .093	+ .194
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	105.115	+ 1.797	+ 9.359

Monetary Aggregates†			% Change Since Three Months Ago*	% Change Since Year Ago
M1		479.7	+ 16.6‡	+ 8.8‡
M2	(November '82)	1,986.9	+ 8.3	+ 9.8
M3	(November '82)	2,399.1	+ 7.3	+ 10.3
L	(August '82)	2,858.9	+ 12.2	+ 11.7

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/17/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.50%	7.70%	7.85%
* Federal Agencies	7.90	8.40	8.80
* Project Notes—Taxfree (46% Taxable Equivalent)	7.78	9.26	9.63
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.70	8.80	9.50

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.50%	Jan.	8.55%
15- 29 days	8.63	Feb.	8.55
30- 59 days	8.50	Mar.	8.55
60- 89 days	8.38	Apr.	8.55
90-179 days	8.25	May	8.55
180-239 days	8.25	Jun.	8.45
240-270 days	8.25		

‡Industrial Paper—Prime			
30- 89 days	8.38%	†Federal Funds	
90-120 days	8.38	Effective Rate	8.75%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,081	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,478	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.0	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Oct '82	6.0%	2.4%	4.8%
Change in Producer Prices*	Nov '82	7.2%	6.0%	6.0%
Civilian Employment (Thousands of Persons)†	Nov '82	99,032	99,093	100,172
Unemployment as % of Civilian Labor Force†	Nov '82	10.8%	10.4%	8.3%
Personal Income*	Oct '82	$ 2,621	$ 2,602	$ 2,487
Leading Indicators Composite Index (1967=100)†	Oct '82	131.4	131.1	128.3
Industrial Production Index (1967=100) †	Nov '82n	135.6	136.2	146.3
Net Change in Consumer Installment Credit†	Oct '82	–$ 0.32	$ 1.09	$ 1.00
U.S. Merchandise Trade Balance †	Oct '82	–$ 5.33	–$ 4.19	–$ 5.03
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Nov '82n	1,428	1,129	860
New Construction Expenditures*	Oct '82	$ 234.9	$ 232.4	$ 230.8
Total Business Inventories†	Oct '82n	$ 515.1	$ 515.4	$ 518.2
Total Business Sales†	Oct '82n	$ 332.1	$ 339.5	$ 346.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/1/82)	140,914	– 2,418	+10,702
New York City (12/1/82)	37,249	– 408	+ 3,023
Commercial Paper (12/1/82)	171,979	+ 4,107*	+ 6,001*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/1/82)	217,008	+ 1,614	+24,675
New York City (12/1/82)	61,643	+ 768	+ 5,973

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/1/82)	503,567	+ 3,556	+34,990
New York City (12/1/82)	121,302	+ 1,576	+ 7,959

Financial Markets

	Friday 12/17/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.20%	0.00	– 3.06
180-Day Bills†	8.60	– .20	– 3.65
Longest Bills†	8.90	– .18	– 3.76
Recent Issues:			
9 3/8s 12/31/84 (When Issued)	9.70	NA	
10s 12/31/82 (When Issued)	10.20	NA	
10 1/2s 11/15/92	10.65	+ .07	
10 3/8s 11/15/12	10.70	+ .12	
Municipals:			
Bond Buyer–20 Bond Index* (12/16/82)	10.05%	– .08	– 2.95
Blue List Total ($ Million)	$1,396	–$ 19	+ $ 143
30-Day Visible Supply ($ Million)	$ 920	–$1,164	– $1,192
Total	$2,316	–$1,183	– $1,049
Corporates:			
Moody's Aa Composite (12/16/82)	12.47%	0.00	– 2.63
30-Day Visible Supply ($ Million) ‡	$ 697	–$ 453	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,011.50	– 7.26	+ 135.74
Transportation	444.32	+ 5.40	+ 53.97
Utilities	117.29	– .88	+ 7.22
65 Stocks	399.20	– .53	+ 47.82
Standard and Poor's 500 Stocks	137.49	– 2.08	+ 13.49
N.Y.S.E. Composite Index	79.20	– 1.29	+ 7.33
N.Y.S.E. Avg. Daily Vol. for Week (000's)	78,520	–15,534	+ 32,496

* 46% Taxable equivalent 18.61%.

‡Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/17/82	Week Ago
Overnight	8.75%	9.00%
1 month	9.50	9.38
3 month	9.63	9.63
6 month	9.81	9.81
1 year	10.00	10.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.20%	12.25%
Long Term (7 to 15 yrs.)	12.25	12.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/17/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02112	47.35
Canada	.8086	1.2367
Denmark	.1176	8.5045
France	.1464	6.8300
Germany	.4151	2.4090
Italy	.0007140	1400.60
Japan	.004112	243.20
Mexico	.007143	140.00
Netherlands	.3764	2.6570
Switzerland	.4888	2.0460
U.K.	1.6183	.6179

B5350-2 1/5/83

The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JANUARY 3, 1983 VOLUME XX, NUMBER 1

A Case For A Recovery . . .

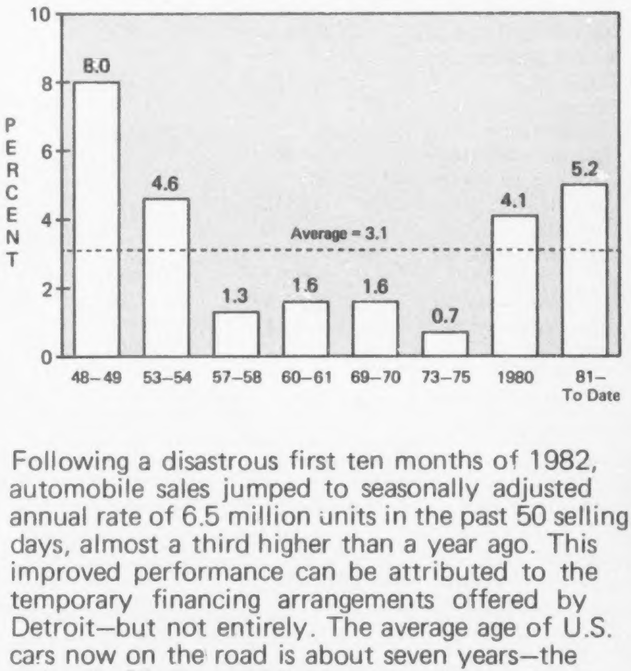
The New Year begins with the U.S. economy still feeling the effects of recession while joblessness remains painfully high. It is thus appropriate to ponder what 1983 has in store for us. The question on everyone's mind is: Will the pace of business pick up soon and the long awaited recovery finally begin? At this time last year many economists were forecasting that an upturn would begin in 1982; they obviously were disappointed. But this year, predictions of an imminent upturn would appear to be based on more promising statistics, since the underpinnings for at least a modest recovery are already becoming visible.

The outlook for the economy was truly bleak last January (Financial Digest–January 11, 1982). The government's index of leading economic indicators was in a protracted slide; December marked the eighth consecutive month of declines. Housing starts were running at a seasonally adjusted annual rate of 882,000 units, almost 40 per cent below the level of December, 1980, and the issuance rate of building permits–a harbinger of future construction activity–offered little hope for an upturn. With mortgage interest rates on 30-year conventional loans averaging about 17½ per cent in the final quarter of 1981, sales of existing homes plummeted, leaving builders with almost nine months' supply of unsold homes. Automobile sales in the last two months of 1981 had been running only at a 5.1 million unit clip, down from a 6.6 million unit rate in the same two months of the previous year.

. . . But It May Be A Long Road Back

In contrast, 1983 is starting on a much brighter note. Interest rates have dropped sharply, sparking a modest but significant upturn in the interest rate-sensitive categories of consumer spending, mainly automobiles and housing. This development has characterized the early stages of every recovery in the past 30 years. What is more, the index of leading economic indicators has now risen in seven of the last eight months after bottoming out in March. Traditionally, recovery has begun after this index has advanced about three months. However, exceptional weakness in net exports and the capital spending sector has delayed the usual response. Significantly, the average increase in the leading indicator index before the onset of the past seven recoveries was about three per cent; this time the rise in the index is 68 per cent higher (see chart). Only in advance of one recovery–following the 1948-49 recession–did the index have to post an increase of a greater magnitude before expansion began.

RISE IN THE INDEX OF LEADING INDICATORS
BEFORE ONSET OF RECOVERY FROM POSTWAR RECESSIONS



Following a disastrous first ten months of 1982, automobile sales jumped to seasonally adjusted annual rate of 6.5 million units in the past 50 selling days, almost a third higher than a year ago. This improved performance can be attributed to the temporary financing arrangements offered by Detroit–but not entirely. The average age of U.S. cars now on the road is about seven years–the oldest in 30 years, while the cost of operating a vehicle has declined as gasoline has become less expensive. These factors combined have also boosted the demand for new cars–particularly the larger, more comfortable cars with less emphasis on fuel efficiency.

An even more powerful force behind the coming upturn is housing. As a result of the drop in

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350 Park Avenue, New York, NY 10022

mortgage interest rates to the 13 per cent range for conventional 30-year mortgages and 12 per cent for government-backed VA and FHA mortgages, housing starts and home sales are up substantially compared with a year ago. In the two months ending November, housing starts were almost 50 per cent higher than in the same period of the previous year. Similarly, sales of new homes are now running almost 50 per cent higher than a year ago, with builders' inventories of unsold homes dropping to about five months' supply. This practically assures a good-sized gain for real residential spending in the GNP accounts in the first quarter of 1983.

The decline in interest rates and the flattening in prices have substantially enhanced consumers' ability to afford autos and houses. Monthly payments on purchases made today may be lower than on those made a year ago. For example, the 4½ percentage point drop in mortgage rates has resulted in a saving of almost $200 per month on a mortgage for a typically priced $70,000 home assuming a 25 per cent down payment. This now enables about one-third of all U.S. households to purchase first homes—using as a rule of thumb that not more than 25 per cent of gross family income should be used to service the loan—compared with only 15 per cent at this time last year. The saving on automobile purchases is much less but still significant. The 6½ percentage point drop in interest rates offered by

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/22/82	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	147.274	+ 1.019	+ 8.443
Loans to Depository Inst.	.547	− .156	− .073
Float	2.978	+ .604	− 1.021
Total Reserve Bank Credit	160.546	+ 1.830	+ 7.170
Treasury Deposits with Federal Reserve Banks	2.959	− .382	− .256
Currency Outside Banks	137.993	+ 1.923	+ 9.128
Member Bank Reserves:			
Required	42.047	+ .549	+ .301
Excess (Deficiency)	.274	− .319	− .109
Total Reserves Held	42.321	+ .230	+ .192
Net Borrowed Reserves	.046	+ .149	+ .040
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	107.442	+ 1.941	+11.095

		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1 (12/15/82)	480.3	+ 16.2‡	+ 8.9‡
M2 (November '82)	1,987.4	+ 8.3	+ 9.8
M3 (November '82)	2,397.9	+ 7.0	+ 10.3
L (August '82)	2,858.2	+ 12.1	+ 11.7

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 12/30/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.90%	8.00%	8.10%
* Federal Agencies	8.15	8.25	9.55
* Project Notes—Taxfree (46% Taxable Equivalent)	8.70	9.26	9.63
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.60	8.65	9.25

‡Finance Company Paper—Prime	
5- 14 days	8.75%
15- 29 days	8.75
30- 59 days	8.63
60- 89 days	8.50
90-179 days	8.38
180-239 days	8.25
240-270 days	8.25

‡* Bankers' Acceptances	
Jan.	8.90%
Feb.	8.60
Mar.	8.60
Apr.	8.55
May	8.55
Jun.	8.40

‡Industrial Paper—Prime	
30- 89 days	8.75%
90-120 days	8.50

†Federal Funds Effective Rate 10.63%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,088	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,481	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.7	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Nov '82n	1.2%	6.0%	6.0%
Change in Producer Prices*	Nov '82	7.2%	6.0%	6.0%
Civilian Employment (Thousands of Persons)†	Nov '82	99,032	99,093	100,172
Unemployment as % of Civilian Labor Force†	Nov '82	10.8%	10.4%	8.3%
Personal Income*	Nov '82n	$ 2,621	$ 2,611	$ 2,499
Leading Indicators Composite Index (1967=100)†	Nov '82n	131.7	130.7	128.2
Industrial Production Index (1967=100) †	Nov '82	135.6	136.2	146.3
Net Change in Consumer Installment Credit†	Oct '82	−$ 0.32	$ 1.09	$ 1.00
U.S. Merchandise Trade Balance †	Nov '82n	−$ 4.09	−$ 5.33	−$ 4.42
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Nov '82	1,428	1,129	860
New Construction Expenditures*	Oct '82	$ 234.9	$ 232.4	$ 230.8
Total Business Inventories†	Oct '82	$ 515.1	$ 515.4	$ 518.2
Total Business Sales†	Oct '82	$ 332.1	$ 339.5	$ 346.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

the Big Three's finance arms has reduced monthly payments on a $7,000 three-year car loan by $22.

Consumers apparently have the means to turn the rise in autos and housing sales into a broad-based recovery. Their savings now represent 6.2 per cent of income which is within range of historical averages. Many will soon receive income tax refunds as a result of last July's tax cut, because employers' withholding tables did not adjust fully for the reduction in tax rates. What is more, consumers' outlook about their future economic situation has recently brightened—albeit slightly—and more people intend to buy homes, autos, appliances and some home furnishings within the next six months, reports the Conference Board. However, persistent worries about job security are causing many people to keep their wallets closed. In addition, the decline in the rate of inflation has taught them that if they hold off on their purchases for a while, some prices may actually go down as hard-pressed merchants are forced to offer deep discounts to move their merchandise.

In sum, there are some signs of an upswing, but any recovery in 1983 will be slow. Housing, autos and defense spending will provide the initial impetus. But continued weakness in capital spending and net exports will act as a drag for quite some time. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/15/82)	136,419	– 3,424	+ 3,030
New York City (12/15/82)	37,097	– 231	+ 2,520
Commercial Paper (12/15/82)	172,377	– 619	+ 6,425*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/15/82)	215,845	+ 19	+22,086
New York City (12/15/82)	61,025	– 291	+ 5,939

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/15/82)	504,069	+ 1,205	+34,755
New York City (12/15/82)	120,788	– 717	+ 9,253

Financial Markets

	Thursday 12/30/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.30%	+ .11	– 3.40
180-Day Bills†	8.55	+ .08	– 4.57
Longest Bills†	8.75	– .05	– 4.80
Recent Issues:			
$9^{3}/_{8}$s 12/31/84 (When Issued)	9.52	0.00	
10s 12/31/86 (When Issued)	10.03	0.00	
$10^{1}/_{2}$s 11/15/92	10.42	+ .01	
$10^{3}/_{8}$s 11/15/12	10.48	– .01	
Municipals:			
Bond Buyer–20 Bond Index*	9.56%	– .28	– 3.74
Blue List Total ($ Million)	$1,047	– $300	– $ 175
30-Day Visible Supply ($ Million)	$ 955	+ $ 58	– $ 832
Total	$2,002	– $242	– $1,007
Corporates:			
Moody's Aa Composite (12/28/82)	12.98%	– .09	– 2.37
30-Day Visible Supply ($ Million) ‡	$ 757	–0–	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,047.37	+ 2.30	+ 174.27
Transportation	448.06	+ .89	+ 69.62
Utilities	119.46	+ 1.43	+ 10.12
65 Stocks	409.25	+ 1.46	+ 62.23
Standard and Poor's 500 Stocks	140.33	+ .61	+ 18.03
N.Y.S.E. Composite Index	80.79	+ .40	+ 9.89
N.Y.S.E. Avg. Daily Vol. for Week (000's)	58,775	–12,868	+ 26,082

* 46% Taxable equivalent 17.70%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 12/30/82	Week Ago
Overnight	8.38%	8.38%
1 month	9.06	9.25
3 month	9.19	9.31
6 month	9.38	9.69
1 year	9.63	9.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.00%	12.20%
Long Term (7 to 15 yrs.)	12.10	12.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/30/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02141	46.70
Canada	.8091	1.2360
Denmark	.1192	8.3900
France	.1489	6.7175
Germany	.4216	2.3718
Italy	.0007313	1367.40
Japan	.004291	233.05
Mexico	.006250	160.00
Netherlands	.3809	2.6255
Switzerland	.5023	1.9910
U.K.	1.6205	.6171

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1983
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B5350-2 1/11/83

The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JANUARY 10, 1983
VOLUME XX, NUMBER 2

An Accommodative Fed . . .

While interest rates have dropped sharply since mid-summer, stirring a modest but welcome revival in the housing and auto industries, they still remain riveted at exceptionally lofty heights when compared with the rate of inflation. What is more, with Federal budget deficits expected to be at or near the $200 billion level this fiscal year and next, threats to the stability of both inflation expectations and interest rates cannot be too far away. But with a more accommodative monetary policy now in place, and private credit demands slumping, the potential for these twelve-digit budget deficits to boost interest rates is still in the future. Thus, the financial markets should be able to accommodate at least this year's vast Federal borrowings without [illegible]ue disruption.

For now, the principal challenge is to get the economy moving. This was the topic which dominated the deliberations of the Federal Reserve's policy-setting Federal Open Market Committee when it met in mid-November and again in late December. According to the minutes of the November 16 meeting, the FOMC reaffirmed its departure from rigid monetarism and its renewed attention to interest rates. With deposit innovations and maturing All Savers certificates distorting the size and significance of trends in the monetary aggregates, and common sense dictating that a tightening of the credit reins would serve neither the economy nor the Fed well, the FOMC elected not to react to above-target M1 growth. What is more, it did not even bother to set a fourth quarter, interim growth target. The FOMC also decided to let the broader aggregates, M2 and M3, grow at a 9½ per cent annual rate during this period. This rate is right at the upper end of the 8½ to 9½ per cent target growth rate set at the October meeting.

At the same time, the FOMC demonstrated that interest rates do again matter. It specified a tolerance range for fluctuations in the Federal funds rate of six to ten per cent. Since funds at that time were trading nearer the upper, rather than lower, end of this band, the FOMC was apparently signaling its desire to see short-term interest rates move lower—regardless of the current location of the M's and the prospective size of Federal budget deficits. Indeed, in order to hasten this process, the discount rate was cut in mid-December to 8½ per cent—its lowest level since 1978.

. . . And Slumping Private Credit Needs . . .

While all the FOMC members did not concur in these moves, it appears a good bet that interest rates will continue their downward drift regardless of whether the Fed decides to actively push them down, or just follow the lead of the markets. The incompatible combination of loose fiscal and tight monetary policies has finally caught up with the private sector. Indeed, with households largely absent from the credit markets, reflecting the sharp plunge in new home and auto purchases, and nonfinancial business credit needs finally fading under the weight of prolonged recession, private credit demands fell by $96 billion in the third quarter compared with the second, to a seasonally adjusted $261 billion annual rate. That's a plunge of 27 per cent quarter-over-quarter. This held the overall increase in credit demands to under four per cent, or less than one fourth the rate of rise posted in the second quarter. The drop in household borrowings was so deep that the quarterly decline in consumer credit outstanding (68 per cent, quarter-over-quarter) was the fourth largest in over 20 years.

Not so for the Federal government, however. As the Federal deficit has soared, so, too, have its borrowing needs. Total Federal and related borrowings climbed to a seasonally adjusted $289 billion annual rate in the third quarter, up sharply from the seasonally adjusted $172 billion annual rate in the second quarter. At the third quarter level, Federal and related borrowings accounted for a record 52 per cent of total funds raised—a surge that was entirely responsible for the overall rise in credit demands. If, for example, Federal borrowings had expanded at just the same rate as they did in the third quarter of 1981, total funds raised would have slumped to a seasonally adjusted $389 billion annual rate—or 29 per cent below the $549 billion actually raised.

Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

. . . Should Give Treasury Borrowings . . .

With Washington's needs ballooning, and seemingly irreversible, future interest rate trends depend on how much longer the Federal Reserve can remain accommodative—not to mention private credit demands. With respect to these demands at least, although it is unlikely that they will weaken much further, it is equally unlikely that they will come roaring back any time soon. To be sure, a spurt in residential construction will be accompanied by rising mortgage loan demand, but with inflation expectations dampened, unemployment rates high and lofty real interest rates encouraging savings rather than spending, the rebound in household borrowings will be modest by historical standards. So, too, the growth of business credit demands should remain lackluster, as bolstered cash flows accompany recovery and capital spending remains soggy. Indeed, short-term credit demands will remain particularly weak both at banks and in the commercial paper market, as corporate America takes the opportunity of functioning bond markets to rearrange the maturity structure of its liabilities.

The softening of private credit needs and the positive yield curve now in place suggest that the financing of the enormous Treasury deficit (and the borrowings of the Federally-sponsored agencies) may be accomplished this year without undue market disruption. Purchases of Treasury issues by private pension funds, state and local government retirement funds and life insurance companies are already running ahead of last year's levels, and will soon be supplemented by stepped-up commercial bank purchases

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	**12/29/82**	**Week Ago**	**Year Ago**
U.S. Gov'ts and Agencies Owned Outright & RPs	146.922	− .352	+ 8.144
Loans to Depository Inst.	.691	+ .144	− .191
Float	3.415	+ .495	− .033
Total Reserve Bank Credit	161.434	+ .944	+ 8.285
Treasury Deposits with Federal Reserve Banks	3.328	+ .369	+ .416
Currency Outside Banks	138.759	+ .764	+ 9.605
Member Bank Reserves:			
Required	41.234	− .813	− .792
Excess (Deficiency)	.878	+ .662	+ .536
Total Reserves Held	42.112	− .151	− .256
Net Free Reserves	.422	+ .526	+ .714
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	106.142	− .130	+11.020

		% Change Since	
Monetary Aggregates †		**Three Months Ago***	**Year Ago**
M1	478.4	+ 16.3‡	+ 8.7‡
M2 (November '82)	1,987.4	+ 8.3	+ 9.8
M3 (November '82)	2,401.2	+ 7.6	+ 10.4
L (August '82)	2,858.2	+ 12.1	+ 11.7

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/7/83	**3 Months**	**6 Months**	**1 Year**
‡ U.S. Treasury Bills	7.85%	7.90%	7.95%
*** Federal Agencies**	8.07	8.12	8.75
*** Project Notes—Taxfree (46% Taxable Equivalent)**	7.59	8.80	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*** Secondary Market—Prime**	8.50	8.50	9.00

‡ Finance Company Paper—Prime		**‡* Bankers' Acceptances**	
5- 14 days	7.75%	Feb.	8.25%
15- 29 days	7.75	Mar.	8.20
30- 59 days	8.00	Apr.	8.20
60- 89 days	8.13	May	8.25
90-179 days	8.25	Jun.	8.20
180-239 days	8.25	Jul.	8.10
240-270 days	8.25		

‡ Industrial Paper—Prime		**† Federal Funds**	
30- 89 days	8.25%		
90-120 days	8.25	Effective Rate	8.15%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,088	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,481	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.7	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Nov '82	1.2%	6.0%	6.0%
Change in Producer Prices*	Nov '82	7.2%	6.0%	6.0%
Civilian Employment (Thousands of Persons) †	Dec '82n	99,093	99,136	99,677
Unemployment as % of Civilian Labor Force †	Dec '82n	10.8%	10.7%	8.6%
Personal Income*	Nov '82	$ 2,621	$ 2,611	$ 2,499
Leading Indicators Composite Index (1967=100) †	Nov '82	131.7	130.7	128.2
Industrial Production Index (1967=100) †	Nov '82	135.6	136.2	146.3
Net Change in Consumer Installment Credit †	Oct '82	−$ 0.32	$ 1.09	$ 1.00
U.S. Merchandise Trade Balance †	Nov '82	−$ 4.09	−$ 5.33	−$ 4.42
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Nov '82	1,428	1,129	860
New Construction Expenditures*	Nov '82n	$ 237.2	$ 229.1	$ 230.0
Total Business Inventories †	Oct '82	$ 515.1	$ 515.4	$ 518.2
Total Business Sales †	Oct '82	$ 332.1	$ 339.5	$ 346.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

as loan demand weakens and deposit flows pick up.

. . . Some Temporary Elbow Room

If the past is any guide, there is some room for expansion. Whereas commercial banks had acquired about 13 per cent of all new Treasury and agency offerings between 1979 and 1981, by the third quarter of last year this ratio had fallen to less than four per cent. Simply lifting the proportion back to where it had stood could result in an additional $28 billion of commercial bank purchases of Federal securities (at third quarter borrowing levels)—an amount alone equivalent to almost two thirds of the anticipated rise in Federal and related borrowings in fiscal 1983!

This development should more than offset the expected declines in the level of Treasury takedowns by money market funds which are rapidly losing deposits to the new accounts that pay money market rates of interest now being offered by commercial banks and thrifts. Another source of financing for Washington is the foreign sector. But last year, the proportion of governments sold to foreigners dropped below 1981's five per cent level as foreign central banks liquidated Treasuries to defend their currencies against the soaring dollar. By the third quarter of 1982, in fact, this ratio had fallen to less than three per cent. However, the recent weakening of the dollar suggests that foreign demand may strengthen this year as dollar-denominated assets become less expensive in terms of foreign currencies, easing even further the Federal financing burden.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/22/82)	134,639	– 1,780	– 828
New York City (12/22/82)	36,576	– 521	+ 1,741
Commercial Paper (12/22/82)	169,995	– 2,382	+ 4,397*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/22/82)	216,668	+ 823	+23,773
New York City (12/22/82)	61,003	– 22	+ 6,090

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/22/82)	506,523	+ 2,454	+37,929
New York City (12/22/82)	122,111	+ 1,323	+11,085

Financial Markets

	Friday 1/7/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.05%	– .25	– 3.90
180-Day Bills†	8.22	– .33	– 4.98
Longest Bills†	8.50	– .25	– 5.17
Recent Issues:			
$9^{3}/_{8}$s 12/31/84	9.26	– .26	
10s 12/31/86	9.86	– .17	
$10^{1}/_{2}$s 11/15/92	10.37	– .05	
$10^{3}/_{8}$s 11/15/12	10.48	0.00	
Municipals:			
Bond Buyer–20 Bond Index* (1/6/83)	9.48%	– .08	– 3.88
Blue List Total ($ Million)	$ 966	– $ 81	– $ 76
30-Day Visible Supply ($ Million)	$1,432	+ $477	– $688
Total	$2,398	+ $396	– $764
Corporates:			
Moody's Aa Composite (1/6/83)	12.38%	– .60	– 3.27
30-Day Visible Supply ($ Million) ‡	$577	– $180	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,076.07	+ 28.70	+ 209.54
Transportation	460.37	+ 12.31	+ 91.70
Utilities	124.49	+ 5.03	+ 16.81
65 Stocks	421.27	+ 12.02	+ 79.28
Standard and Poor's 500 Stocks	145.18	+ 4.85	+ 5.63
N.Y.S.E. Composite Index	83.67	+ 2.88	+ 14.31
N.Y.S.E. Avg. Daily Vol. for Week (000's)	97,572	+38,797	+ 53,270

* 46% Taxable equivalent 17.56%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 1/7/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.63%	8.38%
1 month	8.81	9.06
3 month	8.81	9.19
6 month	8.94	9.38
1 year	9.19	9.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.85%	12.00%
Long Term (7 to 15 yrs.)	11.95	12.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/7/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02165	46.20
Canada	.8132	1.2297
Denmark	.1199	8.3375
France	.1504	6.6500
Germany	.4266	2.3440
Italy	.0007391	1353.00
Japan	.004339	230.45
Mexico	.006667	150.00
Netherlands	.3859	2.5915
Switzerland	.5126	1.9510
U.K.	1.6020	.6242

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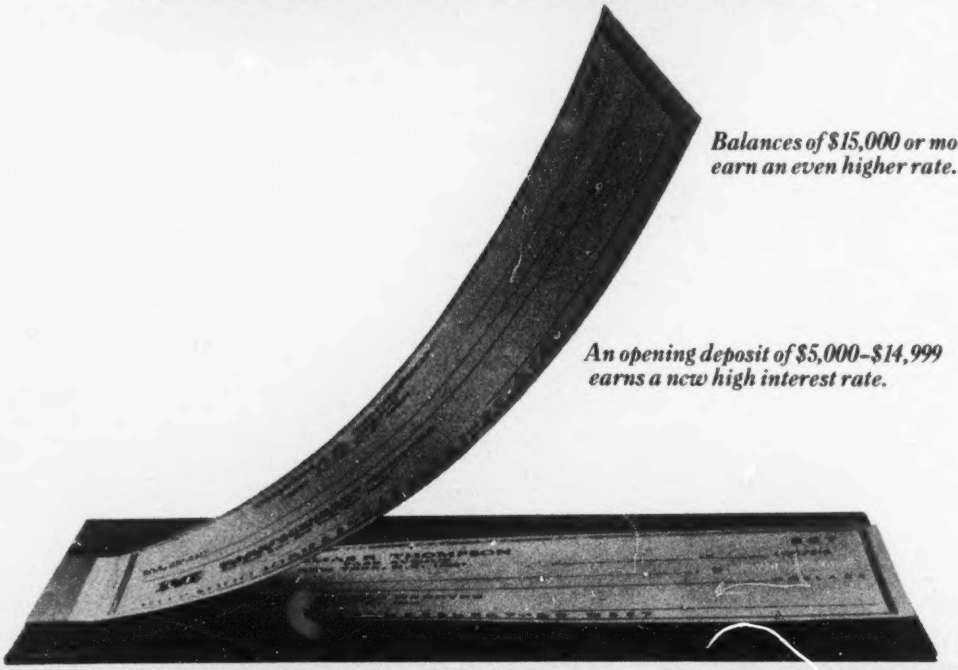

Balances of $15,000 or more earn an even higher rate.

An opening deposit of $5,000–$14,999 earns a new high interest rate.

INTRODUCING OUR SUPER N.O.W. ACCOUNT.

The facts are in. Starting right now, the money in your checking account can earn higher interest than ever. When your checking account is the new Manufacturers Hanover Super N.O.W. Account.

FACT: YOU GET UNLIMITED CHECKING AND A SUPER INTEREST RATE.

We can make your economic outlook brighter this year. Just deposit $5,000* or more into a Manufacturers Hanover Super N.O.W. Account, and the money you keep in checking can earn money market interest rates.

Like all of our checking accounts, you can write as many checks as you want, or make as many deposits as you want.

FACT: DOING MORE OF YOUR BANKING WITH US MAKES YOUR MONEY WORTH EVEN MORE.

There's never been a better reason to do all your banking at Manufacturers Hanover. Because your money will earn an even higher rate if you keep $15,000 in our Super N.O.W. Account, or in a combination of our other savings investments. And like all of our accounts, your total deposits are FDIC insured up to $100,000.

FACT: WE MAKE BANKING SUPER CONVENIENT.

It's easy to see why our Super N.O.W. Account is more convenient. With it, you can get an MHT Card℠ and have access to all of our MHT 24-Hour Banking® Centers. You can get cash, make deposits, or check your balance whenever you want. And when you want to cash a check, you can also use your MHT Card at any of our more than 200 branches.

To get all the facts about making the money you keep in checking worth more, come into any Manufacturers Hanover branch and ask about our new Super N.O.W. Account.

It's the easiest way we know to improve the state of your personal finances.

Minimum opening deposit $5,000. Interest rates change weekly. Interest is compounded daily and credited monthly.

*If on any day during the month daily Super N.O.W. balance falls below $5,000, you must pay a $10 service charge for that month. If your daily Super N.O.W. balance falls below $2,500, you earn the regular N.O.W. Account rate, currently 5¼% per year.

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85350-2 1/15/83

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JANUARY 17, 1983

VOLUME XX, NUMBER 3

U.S. Export Flow To Latin America . . .

In order to service their external debt repayment obligations, many nonoil developing countries will have to impose economic austerity—a move that may also affect U.S. exports in 1983. Most of these countries have been major customers for U.S. products for a number of years. For example, U.S. exports to Mexico in 1980 amounted to about seven per cent of total U.S. exports. Adding five other so-called "high debt" countries of Latin America—Argentina, Brazil, Chile, Peru and Venezuela—boosts the total to 13.2 per cent of total U.S. exports in that year.

The negative effects on U.S. exports of the recession in world trade, the overvalued dollar and the diversion of available foreign exchange from imports to debt service is already being felt. After rising 34 per cent in 1979 and 41 per cent in 1980, exports from the United States to these six Latin American countries rose only 10 per cent in 1981—and for the January through October period of 1982 actually fell by over $6.5 billion, or 25 per cent from the same ten-month period a year earlier.

This decline traced to reductions in every major category of U.S. exports except one—mineral fuels, lubricants and related materials. Exports of this group, which include coal, petroleum products and derivatives and natural gas products almost tripled during the first ten months of 1982 compared with the same period in 1981. The U.S. is a major supplier of refined and processed oil and gas products to Latin America, often in return for their exports of crude oil. The table illustrates the extent to which U.S. exports have been affected by these countries' external debt problems in the present global recessionary economic environment. Total U.S. exports in 1982 probably fell about $24 billion below 1981's $236 billion (Balance of Payments basis)—a decline of ten per cent and equivalent to 0.8 per cent of U.S. nominal GNP.

. . . Dwindles To A Trickle . . .

Exports to Mexico have been among the hardest hit. The sudden onset of Mexico's foreign exchange difficulties is well illustrated by the decline in imports from the United States which traditionally has supplied about 65 per cent of Mexico's total intake of foreign goods. U.S. exports to Mexico in 1979 jumped 48 per cent over the previous year, 54 per cent in 1980 and 17 per cent in 1981. However, they plunged 32 per cent during the January-October period in 1982 compared with the same period in 1981 as the Mexican Government adjusted its policies in an effort to cope with their financial situation. Exports of U.S. agricultural products to Mexico dropped about 54 per cent, while nonagricultural items were down a hefty 28 per cent. Particularly hard hit were food which fell by 68 per cent, manufactured products (−43 per cent) and machinery (−35 per cent).

AGGREGATE PER CENT CHANGE IN U.S. EXPORTS TO SIX "HIGH DEBT" LATIN AMERICAN COUNTRIES* AND TO THE WORLD – (JAN/OCT–1982/81)

EXPORT CATEGORY	SIX COUNTRIES	WORLD
Food and Live Animals	−46	−21
Beverages and Tobacco	−17	4
Crude Materials (ex. Fuels)	−16	−7
Mineral Fuels, Lubricants	149	36
Oils and Fats	−3	−11
Chemicals	−19	−4
Manufactured Goods	−34	−18
Machinery and Transport Equip.	−26	−8
Miscellaneous Manufactures	−23	−4
Other Commodities & Transactions	−48	−23

*Argentina, Brazil, Chile, Mexico, Peru and Venezuela

Brazil, on the other hand, began reducing its imports from the United States a year earlier. After increasing its imports from the U.S. by 26 per cent in 1980 over the previous year, Brazil cut its U.S. imports by 13 per cent in 1981 and by a further nine per cent in the first ten months of 1982 from the same ten-month period in 1981. Again, agri-

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cultural products were reduced the most sharply—by 23 per cent, while imports of manufactures from this country fell about six per cent. The difference in the pattern and rate of import cuts between Mexico and Brazil might be due in part to an earlier awareness of the growing problem of servicing external debt as well as lower dependence on the U.S. as a supplier.

Although the relative decline in U.S. exports to some Latin American countries has been even greater than to Mexico and Brazil, U.S. exports to these two countries are the most important in dollar terms. In fact, in 1980 and 1981 U.S. exports to Mexico alone exceeded exports to Argentina, Brazil, Chile, Peru and Venezuela combined. Further, U.S. exports to these six nations are equivalent to about 68 per cent of our exports to all of Central and South America.

. . . Which Could Affect Growth In The States

The sharp fall in U.S. exports to the LDCs and the overall drop in exports to the rest of the world has important implications for the U.S. economy. These important markets for U.S. agricultural and manufactured goods could be severely diminished for several years to come if the LDCs devote even a fifth of their foreign exchange earnings to debt service. In

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/5/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	147.786	+ .864	+ 7.408
Loans to Depository Inst.	1.202	+ .511	− .250
Float	3.308	− .123	− .169
Total Reserve Bank Credit	162.851	+ 1.401	+ 8.054
Treasury Deposits with Federal Reserve Banks	4.188	+ .860	+ .441
Currency Outside Banks	138.408	− .406	+ 8.932
Member Bank Reserves:			
Required	41.391	+ .157	− .757
Excess (Deficiency)	1.358	+ .519	+ .731
Total Reserves Held	42.749	+ .676	− .026
Net Free Reserves	.336	− .047	+ .909
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	106.197	+ .055	+10.118

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	477.8	+ 15.1‡	+ 8.2‡
M2 (December '82)	2,001.5	+ 9.5	+ 9.8
M3 (December '82)	2,406.0	+ 7.1	+ 10.0
L (August '82)	2,858.2	+ 12.1	+ 11.7

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

·Offering Rates 1/14/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.85%	8.05%	8.30%
* Federal Agencies	7.75	7.85	8.70
* Project Notes—Taxfree (46% Taxable Equivalent)	7.69	8.33	8.61
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.25	8.30	8.80

‡Finance Company Paper—Prime	
5- 14 days	7.88%
15- 29 days	7.88
30- 59 days	8.00
60- 89 days	8.00
90-179 days	8.13
180-239 days	8.13
240-270 days	8.13

‡* Bankers' Acceptances	
Feb.	8.05%
Mar.	8.05
Apr.	6.05
May	8.10
Jun.	8.10
Jul.	8.00

‡Industrial Paper—Prime	
30- 89 days	8.13%
90-120 days	8.13

†Federal Funds Effective Rate 8.25%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,088	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,481	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.7	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Nov '82	1.2%	6.0%	6.0%
Change in Producer Prices*	Dec '82n	1.2%	7.2%	3.6%
Civilian Employment (Thousands of Persons)†	Dec '82	99,093	99,136	99,677
Unemployment as % of Civilian Labor Force†	Dec '82	10.8%	10.7%	8.6%
Personal Income*	Nov '82	$ 2,621	$ 2,611	$ 2,499
Leading Indicators Composite Index (1967=100)†	Nov '82	131.7	130.7	128.2
Industrial Production Index (1967=100) †	Dec '82n	134.7	134.8	143.4
Net Change in Consumer Installment Credit†	Nov '82n	+$ 2.52	−$ 0.32	+$ 0.60
U.S. Merchandise Trade Balance †	Nov '82	−$ 4.09	−$ 5.33	−$ 4.42
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Nov '82	1,428	1,129	860
New Construction Expenditures*	Nov '82	$ 237.2	$ 229.1	$ 230.0
Total Business Inventories†	Nov '82n	$ 508.6	$ 514.2	$ 521.6
Total Business Sales†	Nov '82n	$ 336.4	$ 332.5	$ 344.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

turn, this would lead to reduced production and employment in the United States. Further, the U.S. trade deficit is expected to reach record levels in 1983 without a compensating rise from the sale of financial services to the LDCs. U.S. financial institutions have derived substantial profits in the past from the financing of trade, particularly from our trade with Latin America. What is more, nontrade-related lending to the Latin American countries and other LDCs will probably diminish, reducing interest income which is counted as part of the U.S. current account. The rescheduling of repayments of principal on some LDC loans will also slow, at least temporarily, inflows of funds into the U.S. capital accounts, reducing the capital available for re-investment either at home or abroad.

The reduction of imports from the United States by the LDCs has important implications for the LDCs, too. The sharp drop in food and other agricultural products by these countries suggests a cut in their living standards—not to mention their own agricultural productivity. The decline in imports of machinery and other manufactures will slow, if not halt, most of these countries' development plans, resulting not only in slower growth, but in a delay in the improvement in their living standards in the longer run.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/29/82)	132,340	– 2,296	– 3,530
New York City (12/29/82)	35,612	– 964	+ 1,584
Commercial Paper (12/29/82)	166,523	– 3,472	+ 3,724*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/29/82)	216,863	+ 174	+21,083
New York City (12/29/82)	60,750	– 253	+ 4,606

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/29/82)	505,606	– 963	+34,606
New York City (12/29/82)	119,486	– 2,625	+ 7,694

Financial Markets

	Friday 1/14/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.75%	– .30	– 4.90
180-Day Bills†	7.95	– .27	– 6.20
Longest Bills†	8.25	– .25	– 6.30
Recent Issues:			
$9\frac{3}{8}$s 12/31/84	9.08	– .18	
10s 12/31/86	9.60	– .26	
$10\frac{1}{2}$s 11/15/92	10.25	– .12	
$10\frac{3}{8}$s 11/15/12	10.48	0.00	
Municipals:			
Bond Buyer–20 Bond Index* (1/13/83)	9.37%	– .11	– 4.07
Blue List Total ($ Million)	$ 957	– $ 9	+ $116
30-Day Visible Supply ($ Million)	$1,626	+ $194	+ $ 55
Total	$2,583	+ $185	+ $171
Corporates:			
Moody's Aa Composite (1/13/83)	12.27%	– .11	– 3.43
30-Day Visible Supply ($ Million) ‡	$ 280	– $297	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,080.85	+ 4.78	+ 233.25
Transportation	467.68	+ 7.31	+ 115.05
Utilities	124.63	+ .14	+ 20.45
65 Stocks	424.34	+ 3.07	+ 92.71
Standard and Poor's 500 Stocks	146.65	+ 1.47	+ 30.32
N.Y.S.E. Composite Index	84.67	+ 1.00	+ 17.26
N.Y.S.E. Avg. Daily Vol. for Week (000's)	94,812	– 2,760	+ 47,356

* 46% Taxable equivalent 17.35%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 1/14/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.88%	8.63%
1 month	8.75	8.81
3 month	8.81	8.81
6 month	8.94	8.94
1 year	9.13	9.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.70%	11.85%
Long Term (7 to 15 yrs.)	11.80	11.95

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/14/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02157	46.35
Canada	.8181	1.2223
Denmark	.1207	8.2825
France	.1495	6.6885
Germany	.4241	2.3582
Italy	.0007382	1354.50
Japan	.004332	230.83
Mexico	.006680	149.70
Netherlands	.3847	2.5995
Switzerland	.5162	1.9373
U.K.	1.5792	.6332

A Fact from Manufacturers Hanover:

SPECIAL RATES EXTENDED UNTIL JAN. 31

WE'RE INTRODUCING A LIQUID INVESTMENT MORE SOLID THAN ANY MONEY MARKET FUND

It's a fact. Our new MHT Money Management Account℠ is here. And it offers features that no money market fund can match. It's more solid than any money market fund because it's FDIC insured.[†] It's more liquid because you can make withdrawals anytime you want.

FACT: SIGN UP TODAY FOR RATES THAT BEAT THE MONEY MARKET FUNDS.

Deposit $2,500 or more into our new Money Management Account between now and January 31, and your money will earn an interest rate that beats the average money market fund rate.

We'll give you an even higher rate if you keep $15,000 or more in our Money Management Account, or in any combination of our savings and/or Market Plus℠ Accounts. That way you can make your rate worth even more by doing more of your banking with us.

[†] Total deposits insured up to $100,000.

MHT MONEY MANAGEMENT ACCOUNT

Money Management Account Balance $2,500—$14,999	Annual Percentage Yield** **11.231%**	Annual Interest Rate* **10.500%**
Money Management Account or Consolidated Balances of $15,000 or More	Annual Percentage Yield** **11.797%**	Annual Interest Rate* **11.000%**

A higher rate for consolidated balances is a continuing feature for MHT customers. Keep $15,000 or more in *either* a Money Management Account *or* in any combination of a Money Management Account and other MHT Savings or Times Deposit Accounts to earn the higher rate.
These rates are effective through January 31, 1983.

*Interest rates change weekly. Balances below $2,500 earn NOW Account interest rate.
**Assuming principal and interest remain on deposit at this current rate for full year.

Mail to:
MONEY MANAGEMENT ACCOUNT
Branch Banking Customer Services
Manufacturers Hanover Trust
C.S. 1200, Hicksville, N.Y. 11802

Please send me the facts and the materials needed for opening the new Money Management Account.

Name ____________________
Address ____________________
City ____________________
State ____________ Zip ________
Home Phone ____________________

FACT: ENJOY LIQUIDITY AND CONVENIENCE NO MONEY MARKET FUND CAN EQUAL.

Open a Manufacturers Hanover Money Management Account and you'll have access to your money, at over 200 branches all over the metropolitan area. There are no minimums for checks or deposits, and you can make as many deposits or personal cash withdrawals as you like.

Try doing all this with a money market fund.

Our new Money Management Account: there's never been a more important reason to bank with Manufacturers Hanover. To get all the facts, stop in at any branch, or call the Fact Phone at 212-895-0393. Ask for the new Money Management Account. It's more than any money market fund.

These rates apply to individual deposits up to and including $500,000. Inquire at any branch regarding terms for commercial accounts.

MANUFACTURERS HANOVER TRUST

Our facts make your money worth more.

Member FDIC. Further information about our savings plans is available at any branch.

65350-2 1/24/83

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JANUARY 24, 1983

VOLUME XX, NUMBER 4

The GNP Numbers . . .

If one looks at the top-line GNP numbers alone, the economy ended 1982 on a sour note. The government's latest report shows that the nation's output of goods and services contracted by a seasonally adjusted annual rate of 2.5 per cent in the fourth quarter compared with the third. This is an even steeper decline than Washington thought just one month ago.

But on closer examination, the economy is not as weak as this statistic may seem to indicate. This is because a large part of the contraction in the "real" GNP was due to a dramatic decrease in business inventories, which is hardly a sign of weakness. To the contrary, with excess stocks depressing output, an inventory contraction is a positive development and a critical prerequisite to stabilization of employment and to any increase in industrial production.

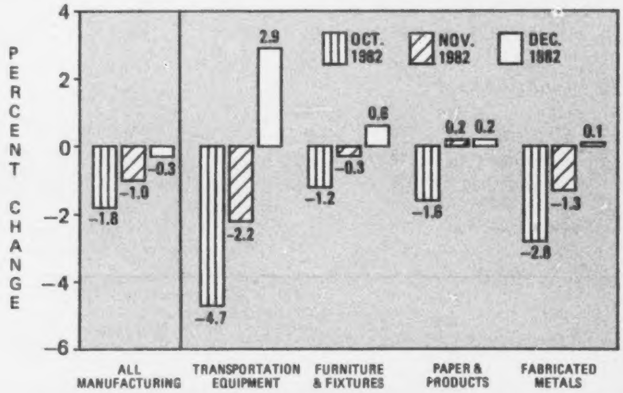
Real final sales—a more accurate barometer of the pace of business because it excludes inventory investment—rose by a healthy 3.1 per cent at a seasonally adjusted annual rate. This represents the highest rate of growth in this component since the first quarter of 1981, when the economy was not—technically, at least—in recession. During the fourth quarter, real inventories fell by $17.7 billion following a $3.4 billion pileup in the third. As a result of this swing, $21.1 billion was subtracted from last quarter's change in the GNP, after a $7.8 billion addition in the third.

. . . Don't Tell The Full Story

The inventory contraction came about largely as a result of Detroit's reduction in its automobile stocks; supplies sank as low as 52 days' sales on December 1, down from an average of 80 days' supply on hand during the third quarter. During the fourth quarter, car sales jumped to a seasonally adjusted 6.1 million unit rate—the highest quarterly rate in over a year. In response to these encouraging developments, the automakers stepped up assemblies from a 4.7 million unit pace in October to a 5.1 million unit rate in December and now plan to manufacture 5.6 million cars at a seasonally adjusted annual rate during the current quarter.

The significant rebound in housing activity has also been an important contributor to the rise in real final sales. As a result of the sharp decline in interest rates for mortgages and construction loans, housing starts jumped to a seasonally adjusted annual rate of 1.25 million units in the fourth quarter, up nearly 12 per cent from the July-September period, and 45 per cent above the same period a year ago. Unfortunately, due to bad weather, construction of new homes was slowed in many parts of the country in December—especially in the South which was hit by major floods—resulting in a 13 per cent drop compared with November. Importantly, building permits—a harbinger of future construction activity—gained eight per cent in December, month-over-month; they have risen in eight out of the last ten months.

EMPLOYED PRODUCTION WORKERS IN SELECTED INDUSTRIES
(MONTHLY PERCENT CHANGES)



Production And Employment . . .

There are other positive signs. For example, not only has the slide in industrial production eased, but many industries have already regained some ground. In December, the retreat in the index—the 15th in the past 17 months—slowed significantly. While the declines averaged 0.9 per cent per month in the previous 13 months, last month's drop was only 0.1 per cent. What is more, half of the 12 available industries reported stepped-up production. This is a big improvement from November, when less

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350 Park Avenue, New York, NY 10022

than one-sixth of the surveyed industries posted increases.

In December, the sharpest rise in industrial production was reported by the transportation industry, where motor vehicles and parts output advanced by a strong seven per cent, month-over-month, and aerospace production rose by 0.5 per cent. Other gainers included ordnance, printing and publishing and instruments. Monthly seasonally adjusted statistics for lumber production are not yet available for December, but weekly unadjusted numbers show a 37 per cent rise in output in December from a year ago. What is more, in response to sharply higher demand by the construction industry, lumber prices have been rising since July. For example, prices of sheathing plywood have jumped by almost 30 per cent in the past six months.

. . . Show Many Signs Of Improving

Similarly, the declines in total manufacturing employment have slowed, and a number of industries have begun to add to their payrolls (see chart on page 1). To be sure, the number of production workers employed in manufacturing has been sliding for 17 months in a row, but there was no smaller decline in almost 1½ years than that posted in December. Importantly, in December seven of the 20 available industries added employees while two held their payrolls constant. The transportation

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/12/83	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	144.819	− 2.967	+ 8.396
Loans to Depository Inst.	.427	− .775	− .571
Float	2.945	− .149	− 1.214
Total Reserve Bank Credit	157.987	− 4.650	+ 7.056
Treasury Deposits with Federal Reserve Banks	2.915	− 1.273	− .154
Currency Outside Banks	136.563	− 1.850	+10.017
Member Bank Reserves:			
Required	40.924	− .467	− 1.249
Excess (Deficiency)	.457	− .687	+ .114
Total Reserves Held	41.381	− 1.154	− 1.135
Net Free Reserves	.194	+ .072	+ .602
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.068	+ 2.871	+12.262

			% Change Since	
Monetary Aggregates†			Three Months Ago*	Year Ago
M1		484.6	+ 14.1‡	+ 7.7‡
M2	(December '82)	1,999.1	+ 9.0	+ 9.7
M3	(December '82)	2,403.7	+ 6.7	+ 9.9
L	(August '82)	2,858.2	+ 12.1	+ 11.7

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 1/21/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.50%	7.60%	7.65%
* Federal Agencies	7.40	8.10	8.70
* Project Notes—Taxfree (46% Taxable Equivalent)	7.41	8.52	8.70
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.40	8.55	9.10

‡Finance Company Paper—Prime	
5- 14 days	7.00%
15- 29 days	7.00
30- 59 days	7.75
60- 89 days	7.75
90-179 days	7.75
180-239 days	7.75
240-270 days	7.75

‡* Bankers' Acceptances	
Feb.	8.05%
Mar.	8.05
Apr.	8.05
May	8.05
Jun.	8.10
Jul.	8.05

‡Industrial Paper—Prime	
30- 89 days	8.00%
90-120 days	8.00

†Federal Funds Effective Rate 8.25%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82n	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82n	$ 1,472	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82n	− 2.5	0.7	− 5.3
Change in Consumer Prices (all urban consumers)*	Dec '82n	− 3.6%	1.2%	4.8%
Change in Producer Prices*	Dec '82	1.2%	7.2%	3.6%
Civilian Employment (Thousands of Persons)†	Dec '82	99,093	99,136	99,677
Unemployment as % of Civilian Labor Force†	Dec '82	10.8%	10.7%	8.6%
Personal Income*	Dec '82n	$ 2,637	$ 2,621	$ 2,498
Leading Indicators Composite Index (1967=100)†	Nov '82	131.7	130.7	128.2
Industrial Production Index (1967=100) †	Dec '82	134.7	134.8	143.4
Net Change in Consumer Installment Credit†	Nov '82	$ 2.52	−$ 0.32	$ 0.60
U.S. Merchandise Trade Balance †	Nov '82	−$ 4.09	−$ 5.33	−$ 4.42
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Dec '82n	1,222	1,404	882
New Construction Expenditures*	Nov '82	$ 237.2	$ 229.1	$ 230.0
Total Business Inventories†	Nov '82	$ 508.6	$ 514.2	$ 521.6
Total Business Sales†	Nov '82	$ 336.4	$ 332.5	$ 344.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

sector which includes the motor vehicles and parts and aerospace industries added 29,000 workers or 2.9 per cent (see chart) in December compared with November—the largest monthly gain since November, 1976. The rise in the production of automobiles and aircraft has in turn boosted demand for fabricated metals products where, after 16 months of declines, employment rose by 0.1 per cent, and for rubber and plastics, where 0.6 per cent more production workers were employed in December than in November.

Similarly, the revival in housing activity—albeit modest—has had a profound effect on many related industries. The lumber and wood industry has added 4,000 workers since October, and now employs 1.2 per cent more workers than in December, 1981. Demand for furniture is up; retail sales by furniture stores have been increasing since October, while employment in the furniture manufacturing industry rose by 0.6 per cent, month-over-month. Finally, employment in the paper and allied products industry has been rising for two months in a row. This category includes paperboard production, a good coincident indicator of economic activity, since it is used for packaging most goods ready for shipping. Production of paperboard jumped by 6.3 per cent in November, and weekly numbers indicate that in December it rose even higher.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/5/83)	126,378	– 6,206	– 5,512
New York City (1/5/83)	33,327	– 2,285	+ 1,277
Commercial Paper (1/5/83)	165,613	– 909	+ 2,179*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/5/83)	219,267	+ 1,560	+23,368
New York City (1/5/83)	61,510	+ 760	+ 5,733

	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/5/83)	509,442	+ 66	+38,093
New York City (1/5/83)	119,286	– 200	+ 8,185

Financial Markets

	Friday 1/21/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.30%	+ .55	– 5.59
180-Day Bills†	8.45	+ .50	– 6.36
Longest Bills†	8.80	+ .55	– 6.06
Recent Issues:			
9¼s 1/31/85 (When Issued)	9.47	NA	
10s 12/31/86	10.00	+ .40	
10½s 11/15/92	10.55	+ .30	
10⅜s 11/15/12	10.79	+ .31	
Municipals:			
Bond Buyer–20 Bond Index* (1/20/83)	9.48%	+ .11	– 3.68
Blue List Total ($ Million)	$1,110	+ $153	+ $320
30-Day Visible Supply ($ Million)	$1,465	– $161	– $439
Total	$2,575	– $ 8	– $119
Corporates:			
Moody's Aa Composite (1/20/83)	12.25%	– .02	– 3.57
30-Day Visible Supply ($ Million) ‡	$ 395	+ $115	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,052.98	– 27.87	+ 207.95
Transportation	448.78	– 18.90	+ 106.75
Utilities	125.05	+ .42	+ 20.99
65 Stocks	413.24	– 11.10	+ 85.28
Standard and Poor's 500 Stocks	143.85	– 2.80	+ 28.47
N.Y.S.E. Composite Index	83.18	– 1.49	+ 16.40
N.Y.S.E. Avg. Daily Vol. for Week (000's)	81,780	–13,032	+ 35,360

* 46% Taxable equivalent 17.56%.

‡Series redefined: Historical data not available.

† Bond equivalent.

International Rates

	Friday 1/21/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.50%	8.88%
1 month	8.81	8.75
3 month	8.88	8.81
6 month	9.06	8.94
1 year	9.25	9.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.60%	11.70%
Long Term (7 to 15 yrs.)	11.70	11.80

FOREIGN EXCHANGE SPOT RATES New York Opening (1/21/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02106	47.48
Canada	.8159	1.2257
Denmark	.1176	8.5000
France	.1452	6.8850
Germany	.4119	2.4280
Italy	.0007165	1395.50
Japan	.004250	235.28
Mexico	.006734	148.50
Netherlands	.3754	2.6638
Switzerland	.5039	1.9845
U.K.	1.5755	.6347

A Fact from Manufacturers Hanover:

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†Total deposits insured up to $100,000.

MHT MONEY MANAGEMENT ACCOUNT

	Annual Percentage Yield**	Annual Interest Rate*
Money Management Account Balance $2,500—$14,999	**11.231%**	**10.500%**
Money Management Account or Consolidated Balances of $15,000 or More	**11.797%**	**11.000%**

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These rates are effective through January 31, 1983.

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**Assuming principal and interest remain on deposit at this current rate for full year.

Mail to:
MONEY MANAGEMENT ACCOUNT
Branch Banking Customer Services
Manufacturers Hanover Trust
C.S. 1200, Hicksville, N.Y. 11802

Please send me the facts and the materials needed for opening the new Money Management Account.

Name ____________________
Address ____________________
City ____________________
State ____________ Zip ________
Home Phone ____________________

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Try doing all this with a money market fund.

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These rates apply to individual deposits up to and including $500,000. Inquire at any branch regarding terms for commercial accounts.

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Our facts make your money worth more.

Member FDIC. Further information about our savings plans is available at any branch.

85350-2 2/1/83

The Manufacturers
Hanover
Financial Digest

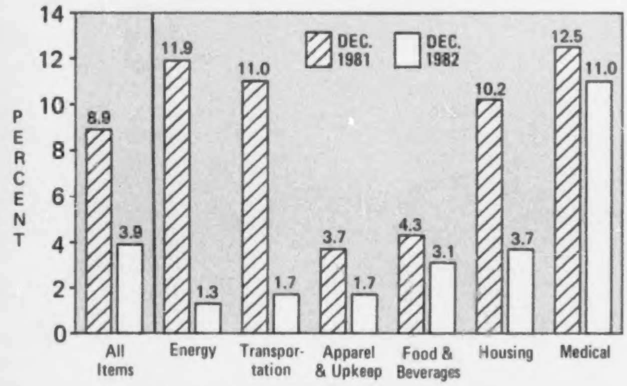
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JANUARY 31, 1983 VOLUME XX, NUMBER 5

Inflation Is In Remission . . .

In a year when so much went wrong with the economy, one thing did go right in 1982. At the cost of the unemployment rate rising to the highest level in more than 40 years, housing starts plunging to a 35-year low, factories leaving the largest chunks of capacity idle since records began and more businesses failing than at any time since the Great Depression, rates of consumer (CPI) and producer (PPI) inflation retreated to their lowest levels in well over a decade.

CONSUMER PRICE INDEX AND SELECTED COMPONENTS
(PERCENT CHANGE FROM A YEAR AGO)



The moderation in the CPI in 1982 was particularly noteworthy. At yearend, prices of consumer goods were only 3.9 per cent higher than in December, 1981, posting the slowest annual increase since 1967, when prices advanced by 3.2 per cent. (The years 1971 and 1972 are excluded from this comparison because prices were artificially depressed by wage and price controls.)

. . . Improving Across The Board

Importantly, every major category within the CPI showed improvement last year compared with 1981 (see chart). The greatest progress took place in energy, where overall prices rose 1.3 per cent in December, year-over-year—the smallest rise since 1964—down from the 11.9 per cent rise posted in 1981. However, this improvement could have been even greater were it not for the 25.4 per cent year-over-year hike in natural gas prices and the 6.4 per cent jump in the cost of electricity. However, motorists enjoyed a 6.7 per cent decline in gasoline prices over the year, while homeowners paid almost two cents less per gallon of heating oil than they did in December, 1981.

What is more, the inability of the OPEC members to agree on production limits and pricing at their January 23-24 meeting in Geneva sets the stage for further oil price declines in 1983. As a result of the persistent oversupply of petroleum, spot oil prices, which reflect the actual supply-demand balance in world markets, have dropped well below the $34 per barrel "official" price and are currently less than $30 per barrel.

This situation is not likely to be remedied soon. Many OPEC producers have locked themselves into development programs based on expectations of ever-rising prices of petroleum and thus cannot afford to cut back production. In fact, most OPEC members want to export as much as possible, and are willing to continue to sell oil at substantially less than the official price in order to generate sufficient revenues. Saudi Arabia, on the other hand, is already operating at less than one half its available capacity. In 1982, when OPEC production declined by an estimated 18 per cent, Saudi Arabia's curtailment was responsible for 80 per cent of the total drop.

But This Good News . . .

Getting back to price trends, there were more favorable developments for consumers last year. In addition to lower heating oil costs, new homeowners

Manufacturers Hanover Trust Company
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benefited from a 12.5 per cent decline in mortgage interest rates (measured by the CPI), which slowed the rise of the cost of owning a home to 3.7 per cent in December, year-over-year, down from a 10.2 per cent pace the year before. Furthermore, the advance in the cost of apparel abated to less than half that of a year ago, as many hard-pressed merchants were forced to slash prices of most merchandise to move out inventories. Various rebates and interest subsidies on automobiles, lower prices of gasoline and the slower rise in the cost of public transit have resulted in a 1.7 per cent increase in the overall cost of transportation, compared with a jump of 11 per cent in 1981. Even the cost of medical care rose at a slower pace, albeit still remaining in double digits.

. . . May Not Last Long

But the battle against inflation is not over yet. There are potential dangers which could eventually rekindle it. Already the recent increase in the pace of business has pushed up prices of many industrial commodities. For example, the modest rebound in housing activity has led to a sharp rebound in lumber prices (Financial Digest—January 24, 1983). Prices of sheathing plywood have risen by almost 30

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/19/83	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	145.441	+ .622	+10.483
Loans to Depository Inst.	.467	+ .040	− .484
Float	1.821	− 1.141	− 4.977
Total Reserve Bank Credit	158.043	+ .039	+ 5.767
Treasury Deposits with Federal Reserve Banks	3.115	+ .200	− .597
Currency Outside Banks	134.731	− 1.832	+ 9.600
Member Bank Reserves:			
Required	42.468	+ 1.544	− 1.831
Excess (Deficiency)	.594	+ .120	+ .061
Total Reserves Held	43.062	+ 1.664	− 1.770
Net Free Reserves	.270	+ .059	+ .423
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.215	+ 1.147	+14.785

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1	483.5	+ 13.8‡	+ 7.6‡
M2 (December '82)	1,999.1	+ 9.0	+ 9.7
M3 (December '82)	2,403.7	+ 6.7	+ 9.9
L (August '82)	2,858.2	+ 12.1	+ 11.7

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 1/28/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.00%	8.25%	8.50%
* Federal Agencies	7.90	8.40	8.80
* Project Notes—Taxfree (46% Taxable Equivalent)	7.78	8.43	8.80
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.55	8.75	9.25

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.13%	Feb.	8.25%
15- 29 days	8.13	Mar.	8.25
30- 59 days	8.25	Apr.	8.30
60- 89 days	8.25	May	8.35
90-179 days	8.25	Jun.	8.45
180-239 days	8.00	Jul.	8.45
240-270 days	8.00		

‡ Industrial Paper—Prime			
30- 89 days	8.25%	† Federal Funds	
90-120 days	8.25	Effective Rate	8.40%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,472	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	− 2.5	0.7	− 5.3
Change in Consumer Prices (all urban consumers)*	Dec '82	− 3.6%	1.2%	4.8%
Change in Producer Prices*	Dec '82	1.2%	7.2%	3.6%
Civilian Employment (Thousands of Persons) †	Dec '82	99,093	99,136	99,677
Unemployment as % of Civilian Labor Force †	Dec '82	10.8%	10.7%	8.6%
Personal Income*	Dec '82	$ 2,637	$ 2,621	$ 2,498
Leading Indicators Composite Index (1967=100) †	Dec '82n	132.8	130.8	127.1
Industrial Production Index (1967=100) †	Dec '82	134.7	134.8	143.4
Net Change in Consumer Installment Credit †	Nov '82	$ 2.52	−$ 0.32	$ 0.60
U.S. Merchandise Trade Balance †	Dec '82n	−$ 3.37	−$ 4.09	−$ 1.81
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Dec '82	1,222	1,404	882
New Construction Expenditures*	Nov '82	$ 237.2	$ 229.1	$ 230.0
Total Business Inventories †	Nov '82	$ 508.6	$ 514.2	$ 521.6
Total Business Sales †	Nov '82	$ 336.4	$ 332.5	$ 344.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

per cent since last July and many homebuilders report that it is now in short supply. The price of copper has gone up ten cents per pound or 15 per cent in the past two months. Importantly, steel prices have risen by almost $15 per ton or nearly 30 per cent since reaching their lows in November.

Over the longer run, the combination of large Federal budget deficits and the rapid acceleration of money supply growth in recent months will add to inflation pressures, too. Since the Fed eased the monetary reins last July, M1 has risen at a seasonally adjusted annual rate of 12.6 per cent. In the year's final quarter, the rate of rise was a steep 16.1 per cent! To be sure, deposit innovations and regulatory changes contributed to the fast pace of M1 growth, but so did Federal Reserve policy actions. And while it may have been initially necessary to get the economy back on track, now that the pace of business has begun to improve, rapid money supply growth must slow soon, lest it ultimately reignite inflation psychology, in the form of higher long-term interest rates. This would choke off the fledgling housing recovery—not to mention depressing business spending on capital goods even more than it already is.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/12/83)	124,466	– 1,874	– 8,232
New York City (1/12/83)	33,699	+ 372	+ 934
Commercial Paper (1/12/83)	165,383	– 265	+ 284*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/12/83)	217,206	– 2,216	+21,729
New York City (1/12/83)	60,988	– 522	+ 5,734

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/12/83)	505,231	– 4,393	+32,780
New York City (1/12/83)	118,256	– 1,030	+ 7,922

Financial Markets

	Friday 1/28/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.27%	– .03	– 5.13
180-Day Bills†	8.52	+ .07	– 5.28
Longest Bills†	8.82	+ .02	– 5.38
Recent Issues:			
9 1/4s 1/31/85	9.48	+ .01	
10s 12/31/86	10.04	+ .04	
10 1/2s 11/15/92	10.70	+ .15	
10 3/8s 11/15/12	10.85	+ .06	
Municipals:			
Bond Buyer–20 Bond Index* (1/27/83)	9.66%	+ .18	– 3.49
Blue List Total ($ Million)	$1,089	– $ 21	+ $287
30-Day Visible Supply ($ Million)	$1,799	+ $334	+ $414
Total	$2,888	+ $313	+ $701
Corporates:			
Moody's Aa Composite (1/27/83)	12.48%	+ .23	– 3.31
30-Day Visible Supply ($ Million) ‡	$640	+ $245	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,064.75	+ 11.77	+ 193.65
Transportation	460.37	+ 11.59	+ 104.23
Utilities	123.62	– 1.43	+ 16.11
65 Stocks	418.31	+ 5.07	+ 79.08
Standard and Poor's 500 Stocks	144.51	+ .66	+ 24.11
N.Y.S.E. Composite Index	83.35	+ .17	+ 13.96
N.Y.S.E. Avg. Daily Vol. for Week (000's)	84,526	+ 2,746	+ 28,788

* 46% Taxable equivalent 17.89%.

‡Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/28/83	Week Ago
Overnight	8.63%	8.50%
1 month	9.00	8.81
3 month	9.25	8.88
6 month	9.38	9.06
1 year	9.75	9.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.80%	11.60%
Long Term (7 to 15 yrs.)	11.90	11.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/28/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02093	47.78
Canada	.8093	1.2357
Denmark	.1169	8.5575
France	.1446	6.9150
Germany	.4101	2.4383
Italy	.0007121	1404.30
Japan	.004222	236.83
Mexico	.006711	149.00
Netherlands	.3733	2.6785
Switzerland	.5013	1.9948
U.K.	1.5360	.6510

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85350-2 3/7/83

The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, FEBRUARY 7, 1983
VOLUME XX, NUMBER 6

A New Fiscal Year . . .

Despite the appearance of several welcome signs suggesting that the economy may be poised to rebound from the longest and deepest economic slump of the postwar era, one area of consistently bleak news persists. This is the outlook for Federal finances. Any hopes of a substantial midterm correction in the course of the Administration's economic policy were dashed at the end of January with the presentation of the fiscal 1984 budget message.

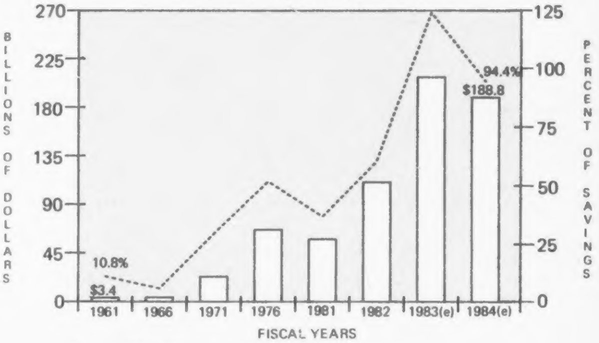
Notwithstanding the proposed inflation-adjusted spending freeze and standby tax increase, the broad outlines of the fiscal 1984 budget are much the same as those of its 1982 and 1983 predecessors: It contains deep cuts in "real" nondefense spending, sizable increases in military outlays and the implementation of another phase of the tax cuts legislated in the Economic Recovery Tax Act of 1981. The result of this budget is likely to be much the same. There will be towering deficits and soaring Treasury borrowings, absorbing near record proportions of net private savings and accounting for the lion's share of total funds raised in the financial markets.

To be sure, there is one difference. The reception accorded this budget message in both Congress and the credit markets has been somewhat more favorable than that of its predecessors, which were largely dismissed out of hand due to unrealistic economic assumptions and subsequent revenue, spending and deficit projections. This time around, the Administration projected precisely the opposite. It used extremely cautious economic assumptions which may turn out to overestimate Washington's projected red ink totals. Whereas the Federal deficit is now projected to be anywhere from $117 billion to $300 billion in the red by fiscal 1988 using the Administration's real growth estimates of 1.4 per cent this year and approximately four per cent thereafter, if real economic growth were to average just 1-1/3 percentage points higher per year, it would yield a balanced Federal budget by fiscal year 1988!

. . . Plus A New Federal Budget . . .

These widely varying deficit estimates clearly point to the imprecision of the budget preparation process. Just a one percentage point change in the rate of unemployment, for example, results in an approximately $25 billion swing in the overall budget deficit. But this raises the question as to whether or not the private sector can stage a sufficiently vigorous recovery to narrow the budget deficit substantially—especially in light of the size of the deficits now expected, and their impact on inflation expectations and interest rates. And here, the outlook is not that bright. For as shown in the chart above, the Administration itself now estimates that the Treasury deficit alone will absorb a sizable 94 per cent of net private savings in fiscal 1984 which, although lower than the estimated 124 per cent level of fiscal year 1983, is still more than nine times the proportion of net private savings absorbed in the early 1960s. What this suggests is that once recovery does get underway and private credit demands do begin to revive, higher interest rates and a short-lived recovery will result unless the Federal Reserve continues to ease money.

FEDERAL BUDGET DEFICIT (BAR) VS.
FEDERAL BUDGET DEFICIT AS A PERCENT OF
NET PRIVATE SAVINGS (DOT)



Source: Office of Management and Budget, Treasury Department

Indeed, cyclical factors alone cannot possibly reduce Washington's borrowing needs in time to avoid the financial market strains that would develop in early

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1984 were there to be an abrupt shift in monetary policy back toward tightness. Perhaps the most important reason is that time is too short. The anticipated fiscal 1984 deficit would have to be shaved by $85 billion (or 45 per cent) simply to lower the proportion of net private savings absorbed by the Federal deficit back to fiscal 1976 levels—when it stood at the already lofty, 50 per cent level. And, with less than nine months remaining until fiscal 1984 commences, such a reduction in the deficit's size is quite unlikely.

. . . Equals The Same Old News . . .

Instead of relying on an economic upswing to reduce the deficit, the government might want to examine other means of enhancing revenues while at the same time reducing spending. On the revenue side, there is substantial room for improvement. Receipts are now expected to cover only $3 of every $4 actually spent next fiscal year, and while it is true that the combination of slow personal incomes growth, double-digit rates of unemployment and weak corporate profits growth have dampened revenue growth, so, too, have the Administration's own actions.

According to the Office of Management and Budget, the tax cuts legislated in 1981 are ". . . estimated to reduce receipts by $38.3 billion in 1982, $91.6 billion in 1983, $139 billion in 1984, and $176.7

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/26/83	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	142.983	– 2.458	+ 7.737
Loans to Depository Inst.	.328	– .139	– 2.141
Float	2.598	+ .665	– .971
Total Reserve Bank Credit	155.992	– 2.163	+ 4.906
Treasury Deposits with Federal Reserve Banks	3.909	+ .794	– 2.238
Currency Outside Banks	133.436	– 1.295	+ 9.813
Member Bank Reserves:			
Required	41.041	– 1.460	– 1.663
Excess (Deficiency)	.553	– .120	+ .356
Total Reserves Held	41.594	– 1.580	– 1.307
Net Free Reserves	.456	+ .107	+ 2.433
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.362	+ 1.147	+15.829

		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1	485.9	+ 12.6‡	+ 7.6‡
M2 (December '82)	1,999.2	+ 9.0	+ 9.7
M3 (December '82)	2,403.8	+ 6.7	+ 9.9
L (September '82)	2,866.2	+ 9.5	+ 11.2

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 2/4/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.75%	7.90%	8.05%
* Federal Agencies	8.10	8.55	8.90
* Project Notes—Taxfree (46% Taxable Equivalent)	7.50	8.15	8.70
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.80	9.13	9.65

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.50%	Mar.	8.40%
15- 29 days	8.50	Apr.	8.40
30- 59 days	8.50	May	8.50
60- 89 days	8.50	Jun.	8.60
90-179 days	8.63	Jul.	8.65
180-239 days	8.63	Aug.	8.60
240-270 days	8.63		

‡Industrial Paper—Prime			
30- 89 days	8.38%	†Federal Funds	
90-120 days	8.38	Effective Rate	8.35%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,472	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 2.5	0.7	– 5.3
Change in Consumer Prices (all urban consumers)*	Dec '82	– 3.6%	1.2%	4.8%
Change in Producer Prices*	Dec '82	1.2%	7.2%	3.6%
Civilian Employment (Thousands of Persons)†	Jan '83n	99,103	99,093	99,688
Unemployment as % of Civilian Labor Force†	Jan '83n	10.4%	10.8%	8.6%
Personal Income*	Dec '82	$ 2,637	$ 2,621	$ 2,498
Leading Indicators Composite Index (1967=100)†	Dec '82	132.8	130.8	127.1
Industrial Production Index (1967=100) †	Dec '82	134.7	134.8	143.4
Net Change in Consumer Installment Credit†	Nov '82	$ 2.52	–$ 0.32	$ 0.60
U.S. Merchandise Trade Balance †	Dec '82	–$ 3.37	–$ 4.09	–$ 1.81
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Dec '82	1,222	1,404	882
New Construction Expenditures*	Dec '82n	$ 239.0	$ 235.8	$ 228.8
Total Business Inventories†	Nov '82	$ 508.6	$ 514.2	$ 521.6
Total Business Sales†	Nov '82	$ 336.4	$ 332.5	$ 344.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

billion in 1985." Because of this development, the Administration has been back-pedaling ever since, engineering first a three-year, $99 billion tax increase package just last year and now proposing standby taxes on crude oil and surcharges on individual and corporate income taxes. These levies, if adopted, would net the Administration approximately $45 billion annually during the fiscal 1986-88 period, offsetting a good-sized chunk—but not all—of the revenue loss associated with the 1981 tax rate reductions.

But why wait until fiscal 1986, and run the risk of aborting this year's recovery in early 1984? A similar revenue impact could be achieved much sooner by simply delaying this July's scheduled reduction in personal income tax rates, which would boost receipts by perhaps $32 billion and shave the anticipated fiscal 1984 deficit by 17 per cent.

. . . Grim

On the spending side, past profligacy in nondefense spending, along with actual and proposed vast increases in defense spending continue to derail prospects for budget balance. In fiscal 1982, military spending once again became the engine of Federal spending growth, advancing by 17.3 per cent year-over-year (or twice the rate of rise in income security spending), accounting for almost 40 per cent of the $74 billion, overall expenditure

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/19/83)	119,939	– 4,515	–12,575
New York City (1/19/83)	32,444	– 1,255	– 226
Commercial Paper (1/19/83)	166,294	+ 1,011	+ 55*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/19/83)	218,315	+ 1,050	+22,586
New York City (1/19/83)	61,359	+ 371	+ 5,892

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/19/83)	505,174	– 60	+35,224
New York City (1/19/83)	118,868	+ 612	+10,051

Financial Markets

	Friday 2/4/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.53%	+ .26	– 5.85
180-Day Bills†	8.82	+ .30	– 5.96
Longest Bills†	9.10	+ .28	– 5.63
Recent Issues:			
$9^1/_4$s 1/31/85	9.80	+ .32	
10s 12/31/86	10.28	+ .24	
$10^7/_8$s 2/15/93 (When Issued)	10.98	NA	
$10^3/_8$s 11/15/12 (When Issued)	11.10	NA	
Municipals:			
Bond Buyer–20 Bond Index* (2/3/83)	9.74%	+ .08	– 3.39
Blue List Total ($ Million)	$ 835	– $254	– $ 12
30-Day Visible Supply ($ Million)	$1,926	+ $127	+ $356
Total	$2,761	– $127	+ $344
Corporates:			
Moody's Aa Composite (2/3/83)	12.65%	+ .17	– 3.15
30-Day Visible Supply ($ Million) ‡	$ 550	– $ 90	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,077.91	+ 13.16	+ 226.88
Transportation	485.07	+ 24.70	+ 127.90
Utilities	125.05	+ 1.43	+ 18.10
65 Stocks	428.43	+ 10.12	+ 93.40
Standard and Poor's 500 Stocks	146.14	+ 1.63	+ 28.88
N.Y.S.E. Composite Index	84.29	+ .94	+ 16.50
N.Y.S.E. Avg. Daily Vol. for Week (000's)	78,660	– 5,866	+ 28,792

* 46% Taxable equivalent 18.04%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/4/83	Week Ago
Overnight	8.38%	8.63%
1 month	9.00	9.00
3 month	9.31	9.25
6 month	9.63	9.38
1 year	10.00	9.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.90%	11.80%
Long Term (7 to 15 yrs.)	12.00	11.90

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/4/83)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02060	48.54
Canada	.8134	1.2294
Denmark	.1148	8.7100
France	.1422	7.0315
Germany	.4032	2.4800
Italy	.0007012	1426.00
Japan	.004165	240.08
Mexico	.006741	148.35
Netherlands	.3672	2.7235
Switzerland	.4919	2.0330
U.K.	1.5168	.6593

rise. Putting this together with the $19 billion increase in net interest costs brought the total increase in just these two items alone to $47 billion last fiscal year—accounting for almost $2 of every $3 incremental dollars spent.

Nor are these trends likely to be reversed anytime soon. In fact, they will get worse. As proposed, defense spending is slated to increase by an average of $35 billion annually throughout the fiscal 1984-88 period, while interest outlays are expected to soar by an additional $9 billion per annum. Since overall Federal spending will increase by only $64 billion annually, the implications are clear—defense and debt service will account for 70 per cent of all additional Federal dollars spent from now until September, 1988. What is more, compared with anticipated revenue trends, the results are even more disturbing. If the standby tax proposals are implemented, these same increases in military and interest cost outlays would equal about 60 per cent of average annual revenue growth. If the tax proposals are not enacted, they just about equal average annual revenue growth!

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B5350-2 2/15/83

The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, FEBRUARY 14, 1983 VOLUME XX, NUMBER 7

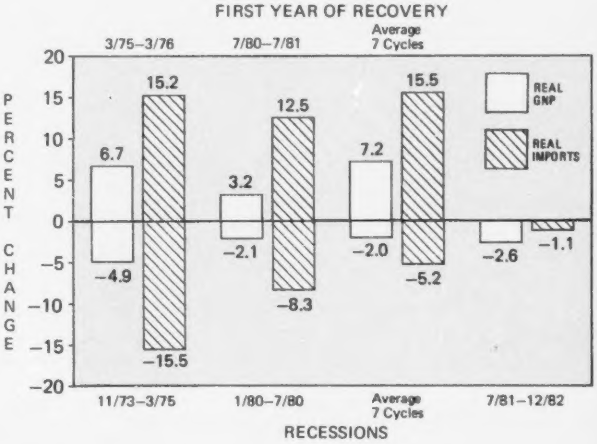
U. S. Recovery Means . . .

Evidence that the U.S. economy has begun to expand once again is accumulating at a rapid pace. Even the unemployment rate—usually a lagging indicator—fell sharply last month. But similar evidence of an economic upturn has not appeared elsewhere. Most other industrial countries are still mired in recession and the developing countries (LDCs)—oil exporting and non-oil exporting alike—continue to struggle with problems aggravated by the global recession. World trade, which is vital to the economic well-being of both the industrial countries and the LDCs, has stagnated over the past two years. In 1981 the volume of world trade declined by 1.2 per cent, the first decline since 1975. Although data are not yet complete, last year does not appear to have been any better for world trade than 1981. Hence, the evidence of improvement in the U.S. economy and the consequent prospects for a sharp rise in U.S. imports are particularly welcome abroad.

Fortunately, the response of imports to an improvement in the U.S. economy is quite rapid. After the two previous recessions, imports recovered essentially all of their losses in real terms in the first year of recovery (see chart). In previous post-World War II recoveries the average percentage growth in imports has been more than twice the percentage improvement in real GNP. Even though real GNP this time may not grow as much as average, nonetheless, imports may be expected to show quick and substantial improvement. The response of imports to the recovery following the brief recession of early 1980 shows that even a weak recovery in GNP generates large benefits to our trading partners in terms of imports. Although it is, of course, too early to forecast the pattern of the present upturn in the U.S., it is likely that within the next year there will be a substantial rise in the inflow of goods.

The historical structure of U.S. import trade suggests the direction which the rise in imports will take. In 1981 the United States received 52.4 per cent of the dollar value of its imports from other industrial countries, 25.6 per cent from the non-oil LDCs and 18.5 per cent from the oil-exporting countries. One decade before, 71.5 per cent of U.S. imports were from the other developed countries, 20.5 per cent were from the non-oil LDCs and only 5.1 per cent were from the oil producers. It is clear that both the oil producers and the non-oil LDCs have made significant inroads into the U.S. import market at the expense of the industrial nations. The sharp escalation in oil prices has accounted for the largest part of this increased market penetration by both the principal oil-exporting countries and some of the LDCs which export oil as part of a more or less broad range of exports—Mexico, for example.

CHANGES IN GNP AND MERCHANDISE IMPORTS IN CYCLICAL PERSPECTIVE



A similar pattern emerges when the kinds of imports into the U.S. in 1981 and 1972 are compared. In 1981, 7.4 per cent of the dollar value of U.S. imports were classified as food, beverages and tobacco compared with 13.3 per cent one decade before. Fuels (including oil) skyrocketed to 31.1 per cent of U.S. imports in 1981 from 8.6 per cent in 1972. Industrial raw materials fell from 7.3 per cent to 4.4 per cent as the decade progressed and manufactured goods dropped from 67.9 per cent in 1972 to 55.4 per cent in 1981. Every major category of imports fell as a percentage of total imports except for fuels which almost quadrupled over the ten-year period. The increase in market share of U.S. imports by the

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oil-producing countries as well as the sharp rise in the fuel portion in the makeup of U.S. imports suggests that those countries which export oil to the U.S. including such relative newcomers as Mexico, will be among the primary beneficiaries of any upturn in U.S. imports.

. . . Strong Support . . .

A close look at the flow of U.S. imports after the last major recession confirms the import pattern which developed over the past decade and indicates some of the directions which the imports might take during the forthcoming economic upturn and who some of the foreign beneficiaries might be. In 1976 when a U.S. economic recovery was well under way, imports into the U.S. were 25 per cent higher than in 1975 which still showed the effects of the 16-month recession which had ended in March of that year. In the same period, however, imports from the Near East had risen by 68 per cent, imports from Africa and South Asia were up 56 and 43 per cent respectively and imports from Japan had risen by 38 per cent. Much of the rise in imports from the Near East, Africa and South Asia were, of course, the result of rising oil imports from countries in those regions. By contrast Latin America's exports to the U.S. grew by only six per cent.

In 1976 agricultural imports were up 18 per cent and manufactured goods rose by 26 per cent, close

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 2/2/83	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	141.506	– 1.477	+ 3.284
Loans to Depository Inst.	.385	+ .057	– 1.466
Float	2.132	– .259	– .589
Total Reserve Bank Credit	153.770	– 2.015	+ .913
Treasury Deposits with Federal Reserve Banks	2.431	– 1.478	– 5.432
Currency Outside Banks	133.333	– .103	+ 9.381
Member Bank Reserves:			
Required	40.502	– .539	– 1.798
Excess (Deficiency)	.446	+ .108	– .038
Total Reserves Held	40.948	– .431	– 1.836
Net Free Reserves	.309	+ .068	+ 1.354
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.188	+ .826	+19.923

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (1/26/83)	485.9	+ 12.6‡	+ 7.6‡
M2 (December '82)	1,999.2	+ 9.0	+ 9.7
M3 (December '82)	2,403.8	+ 6.7	+ 9.9
L (September '82)	2,866.2	+ 9.5	+ 11.2

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 2/11/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.75%	7.85%	8.10%
* Federal Agencies	7.95	8.50	9.20
* Project Notes—Taxfree (46% Taxable Equivalent)	7.59	7.96	8.33
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.55	8.75	9.50

‡Finance Company Paper—Prime	
5- 14 days	8.25%
15- 29 days	8.25
30- 59 days	8.38
60- 89 days	8.38
90-179 days	8.38
180-239 days	8.38
240-270 days	8.38

‡* Bankers' Acceptances	
Mar.	8.20%
Apr.	8.20
May	8.25
Jun.	8.25
Jul.	8.30
Aug.	8.30

‡Industrial Paper—Prime	
30- 89 days	8.38%
90-120 days	8.38

†Federal Funds	
Effective Rate	8.40%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,472	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 2.5	0.7	– 5.3
Change in Consumer Prices (all urban consumers)*	Dec '82	– 3.6%	1.2%	4.8%
Change in Producer Prices*	Jan .83n	– 12.0%	2.4%	6.0%
Civilian Employment (Thousands of Persons)†	Jan '83	99,103	99,093	99,688
Unemployment as % of Civilian Labor Force†	Jan '83	10.4%	10.8%	8.6%
Personal Income*	Dec '82	$ 2,637	$ 2,621	$ 2,498
Leading Indicators Composite Index (1967=100)†	Dec '82	132.8	130.8	127.1
Industrial Production Index (1967=100) †	Dec '82	134.7	134.8	143.4
Net Change in Consumer Installment Credit†	Dec '82n	$ 2.19	$ 2.52	–$ 0.03
U.S. Merchandise Trade Balance †	Dec '82	–$ 3.37	–$ 4.09	–$ 1.81
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Dec '82	1,222	1,404	882
New Construction Expenditures*	Dec '82	$ 239.0	$ 235.8	$ 228.8
Total Business Inventories†	Nov '82	$ 508.6	$ 514.2	$ 521.6
Total Business Sales†	Nov '82	$ 336.4	$ 332.5	$ 344.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

to the overall growth rate of all imports. Within this latter category, however, automotive vehicles, parts and engines showed a 38 per cent rise of which automotive imports from Canada increased by 36 per cent and automotive imports from elsewhere were up by 40 per cent. Japan's export of motor vehicles to the United States in that same period rose by 47 per cent.

Capital goods imports rose by about 14 per cent while nonfood consumer goods, representing a wide range of products mainly from developed economies, were up by 34 per cent. Although every major category of imports into the United States showed substantial improvement between 1975 and 1976, it is clear that the greatest growth occurred in the categories of fuels (i.e., petroleum and petroleum products) and automotive products and the best performance among the nations exporting to the United States were the countries which supplied these products.

. . . For Recovery Abroad

The chart makes it clear that imports respond both rapidly and strongly to upswings in the U.S. business cycle. As the current upturn continues, it is likely that the same rebound in imports which has been evident in the seven previous postwar recoveries will again appear. Indeed, the prospects for an above average resurgence in imports are enhanced by the

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/26/83)	118,865	– 1,074	–16,268
New York City (1/26/83)	32,425	– 19	– 1,822
Commercial Paper (1/26/83)	166,584	+ 310	– 789*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/26/83)	216,409	– 1,906	+19,818
New York City (1/26/83)	60,684	– 675	+ 5,326

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/26/83)	502,509	– 2,669	+32,730
New York City (1/26/83)	117,618	– 1,250	+ 8,974

Financial Markets

	Friday 2/11/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.38%	– .15	– 6.45
180-Day Bills†	8.67	– .15	– 6.58
Longest Bills†	9.00	– .10	– 6.25
Recent Issues:			
$9^1/_4$s 1/31/85	9.65	– .15	
10s 12/31/86	10.15	– .13	
$10^7/_8$s 2/15/93 (When Issued)	10.80	– .18	
$10^3/_8$s 11/15/12 (When Issued)	10.92	– .18	
Municipals:			
Bond Buyer–20 Bond Index* (2/10/83)	9.72%	– .02	– 3.37
Blue List Total ($ Million)	$ 987	+ $152	+ $ 214
30-Day Visible Supply ($ Million)	$2,123	+ $197	+ $ 811
Total	$3,110	+ $349	+ $1,025
Corporates:			
Moody's Aa Composite (2/10/83)	12.69%	+ .04	– 3.13
30-Day Visible Supply ($ Million) ‡	$ 410	– $140	NA
Stocks (2/10/83):			
Dow-Jones Averages			
Industrials	1,087.75	+ 9.84	+ 253.08
Transportation	479.75	– 5.32	+ 130.84
Utilities	123.89	– 1.16	+ 18.73
65 Stocks	428.74	+ .31	+ 100.42
Standard and Poor's 500 Stocks	147.50	+ 1.36	+ 33.07
N.Y.S.E. Composite Index	85.10	+ .81	+ 18.99
N.Y.S.E. Avg. Daily Vol. for Week (000's)	85,160	+ 6,500	+ 35,982

* 46% Taxable equivalent 18.00%.

‡Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/11/83	Week Ago
Overnight	8.63%	8.38%
1 month	8.63	9.00
3 month	8.94	9.31
6 month	9.06	9.63
1 year	9.63	10.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.70%	11.90%
Long Term (7 to 15 yrs.)	11.85	12.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/11/83)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02111	47.37
Canada	.8167	1.2244
Denmark	.1172	8.5300
France	.1467	6.8160
Germany	.4163	2.4020
Italy	.0007218	1385.30
Japan	.004264	234.50
Mexico	.006289	159.00
Netherlands	.3762	2.6580
Switzerland	.4995	2.0020
U.K.	1.5460	.6468

continuing strength of the U.S. dollar which adds to the attractiveness of imports in dollar terms. Further, falling oil prices may reduce the total dollars spent on oil imports and allow an expansion in other import categories.

Although the oil exporters and the purveyors of manufactured goods, principally automobiles and consumer items, will be the principal beneficiaries, it does not appear likely, that exporters of capital goods to the U.S. will see an early improvement. The present low level of capacity utilization and capital investment in this country will delay growth in capital goods imports until later in the cyclical upswing. However, the overseas benefits of rising imports will be widespread. Not only will the oil-exporting LDCs benefit directly, but the fillip given to world trade by the U.S. recovery will generate generous secondary benefits in terms of exports from other LDCs to the oil-exporting and industrial countries. Thus, by its global impact in stimulating world trade, the U.S. economy may well again fulfill its past role as the "engine" of world economic growth. H

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The Manufacturers
Hanover
Financial
Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, FEBRUARY 18, 1983

VOLUME XX, NUMBER 8

The Federal Reserve . . .

As the sun's rays grow stronger, so, too, do prospects for recovery. Several economic indicators appear to have at least touched bottom, while an ever-increasing number are spiking higher. This week, industrial production joined the list, rising 0.9 per cent in January month-over-month, the second largest monthly gain in more than two years. What is more, housing starts, which have been ratcheting upward since last summer, surged last month, climbing a record 36 per cent compared with December levels, to a seasonally adjusted annual rate of 1.7 million units. And while all of this can come none too soon for a recession-weary economy, perhaps the best news of all was Federal Reserve Chairman Paul A. Volcker's testimony to Congress on February 16 concerning the stance of monetary policy in 1983.

Against a backdrop of widespread fears that the credit reins would soon be tightened because of rapidly accelerating money supply growth, Chairman Volcker indicated that the Fed would essentially continue to follow the policy first instituted last July—pushing down interest rates to foster economic recovery. Not only were relatively generous money supply growth targets set for this year, intended to be ". . . fully compatible with easier market conditions and lower interest rates in 1983 . . .", but it also became apparent that the Fed was going to do little to eliminate the current bulges in M1 and M2.

One important reason underlying the continuing departure from rigid monetarism—other than that it would make little sense to tighten the monetary reins at this time—is the fact that trends in the monetary aggregates have been distorted by deposit innovations and regulatory reform. For while M1 advanced at a rapid 15.3 per cent seasonally adjusted annual rate clip during the month ending February 2, and M2—the aggregate to watch in 1983 according to the Fed—expanded at an even faster 29.5 per cent seasonally adjusted annual rate in January, nobody really seems to know what all this means.

Indeed, given the uncertain impact on these aggregates arising from the introduction of Super-NOW accounts (included in M1) and money market deposit accounts (included in M2), it has become extremely difficult for the monetary authorities to separate precisely the effects of shifting liquidity preferences on the part of the public from underlying money growth trends. As a result, not only are the ultimate linkages between today's money supply developments and future economic and price trends clouded even more than usual, but so, too, is the appropriate monetary policy response to such developments.

. . . Sets The Stage . . .

As a result, the Fed has found itself looking at ever broader aggregates in an attempt to derive some meaningful signals from money supply trends. But trends in M3, which consists of M2 plus such additional components as large certificates of deposit and institutional money market fund balances, do little to clarify the policymakers' dilemma. For while M1 and M2 developments have suggested some need for less accommodation, M3 trends seemingly point in the opposite direction. It is still within target (even after rising at a seasonally adjusted 11.3 per cent annual rate in January, pushed higher by the M2 explosion), following sluggish growth during the fourth quarter of 1982, when M3 expanded at an annual rate only about one-half the rate of rise posted in the preceding quarter.

In light of these money supply uncertainties, Chairman Volcker and the policy-setting Federal Open Market Committee have had little choice but to tolerate the recent money supply bulges, setting policy based on the needs of the real economy, trends in the rate of inflation and, finally, the monetary aggregates. But, beyond this, the Fed has used the recent bulges in M1 and M2 as an opportunity to give a good-sized shove to money growth in 1983. Take M1, for example. Since its growth targets are going to be calculated from the actual fourth quarter average of the series last year, to the

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fourth quarter average of the series this year, by using an already above-target starting point the base is raised from which 1983's expansion path is charted. This allows for a bigger increase in the money supply than would otherwise have occurred if the base period was either within, or below, 1982's target range.

It works like this. The actual fourth quarter M1 average was 2.8 per cent above its 1982 upper target boundary. If it now expands by a further four per cent in 1983 (the just-announced lower target boundary) then, by the end of this year, M1 will stand 8½ per cent higher than the midpoint of yearend 1982's target range. If, on the other hand, M1 grows by the maximum of eight per cent, by yearend 1983 it would stand almost 13 per cent higher than yearend 1982's midpoint.

. . . For More Ease

Much the same holds for M2—but with one important difference. Since the Fed plans to use a February-March, 1983 average as the base for M2's expansion path this year, (rather than last year's undoubtedly lower fourth quarter average) it signals two things to the financial markets. First, that it will not move to eliminate the current M2 bulge, arising as it does largely due to deposit innovation, and second, that, as with M1, this bulge will be put to good use: namely, to give M2 growth a boost in 1983. And, if that wasn't enough, the growth targets themselves have been raised—with both the upper

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/9/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	142.005	+ .499	+ 7.877
Loans to Depository Inst.	.372	– .013	– 1.290
Float	1.985	– .154	– 1.131
Total Reserve Bank Credit	154.158	+ .381	+ 5.584
Treasury Deposits with Federal Reserve Banks	3.456	+ 1.025	– 1.863
Currency Outside Banks	134.462	+ 1.071	+ 9.897
Member Bank Reserves:			
Required	39.032	– 1.452	– 1.500
Excess (Deficiency)	.288	– .126	+ .171
Total Reserves Held	39.320	– 1.578	– 1.329
Net Free Reserves	.185	– .092	+ 1.391
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.043	– .145	+16.019

Monetary Aggregates †			% Change Since Three Months Ago*	% Change Since Year Ago
M1		490.8	+ 12.5‡	+ 8.4‡
M2	(January '83)	2,007.1	+ 16.1	+ 10.9
M3	(January '83)	2,399.7	+ 8.1	+ 10.0
L	(September '82)	2,837.7	+ 10.4	+ 10.1

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/18/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.90%	8.00%	8.15%
* Federal Agencies	8.20	8.75	9.10
* Project Notes–Taxfree (46% Taxable Equivalent)	7.59	7.78	8.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.45	8.55	9.00

‡ Finance Company Paper–Prime	
5- 14 days	8.13%
15- 29 days	8.25
30- 59 days	8.25
60- 89 days	8.25
90-179 days	8.25
180-239 days	8.25
240-270 days	8.25

‡* Bankers' Acceptances	
Mar.	8.25%
Apr.	8.25
May	8.25
Jun.	8.25
Jul.	8.25
Aug.	8.25

‡ Industrial Paper–Prime	
30- 89 days	8.13%
90-120 days	8.25

†Federal Funds Effective Rate 8.40%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,472	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 2.5	0.7	– 5.3
Change in Consumer Prices (all urban consumers)*	Dec '82	– 3.6%	1.2%	4.8%
Change in Producer Prices*	Jan '83	– 12.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons) †	Jan '83	99,103	99,093	99,688
Unemployment as % of Civilian Labor Force †	Jan '83	10.4%	10.8%	8.6%
Personal Income*	Jan '83n	$ 2,639	$ 2,638	$ 2,499
Leading Indicators Composite Index (1967=100) †	Dec '82	132.8	130.8	127.1
Industrial Production Index (1967=100) †	Jan '83n	136.2	135.0	140.7
Net Change in Consumer Installment Credit †	Dec '82	$ 2.19	$ 2.52	–$ 0.03
U.S. Merchandise Trade Balance †	Dec '82	–$ 3.37	–$ 4.09	–$ 1.81
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Jan '83n	1,716	1,263	877
New Construction Expenditures*	Dec '82	$ 239.0	$ 235.8	$ 228.8
Total Business Inventories †	Dec '82n	$ 505.6	$ 508.6	$ 519.4
Total Business Sales †	Dec '82n	$ 332.7	$ 335.8	$ 341.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

and lower target boundaries lifted by one percentage point from year-earlier levels.

Thus, even in the unlikely event of no further growth in M2 during February and March, the base number would still be almost 3½ per cent above 1982's upper target boundary. After tacking a further increase of seven per cent (the new lower growth target boundary) on top of this, M2 would, by yearend, stand more than 12 per cent above the midpoint of its yearend 1982 target range, while a ten per cent rate of rise would leave it more than 15 per cent above the midpoint of yearend 1982's target range!

What does all this mean? Chairman Volcker's statements suggest that Fed policy will seek to facilitate recovery by creating the environment for lower interest rates ahead. And, with the M1 money supply further de-emphasized and trends in M2 assuming added importance, it will be almost midyear at least before the monetary authorities have to consider tightening the credit reins—if then. This is because M2, a monthly number, will apparently be allowed to seek its own level this month and next, while April's figure will not be available until early May. Additionally, if more than one month is needed to discern a trend, it could well be June or July before the central bank will be sure that it had a money bulge on its hands. Monetarism abandoned? Not exactly, just in evolution to serve the needs of the economy better.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/2/83)	118,219	– 635	–16,761
New York City (2/2/83)	32,089	– 336	– 3,116
Commercial Paper (2/2/83)	167,958	+ 1,393	+ 1,423*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/2/83)	218,551	+ 2,102	+19,687
New York City (2/2/83)	61,417	+ 733	+ 5,070

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/2/83)	507,073	+ 4,560	+33,109
New York City (2/2/83)	119,711	+ 2,093	+ 8,744

Financial Markets

	Friday 2/18/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.25%	– .13	– 5.45
180-Day Bills†	8.55	– .12	– 5.79
Longest Bills†	8.85	– .15	– 6.19
Recent Issues:			
$9^{1}/_{4}$s 1/31/85	9.55	– .10	
10s 12/31/86	9.95	– .20	
$10^{7}/_{8}$s 2/15/93	10.55	– .25	
$10^{3}/_{8}$s 11/15/12	10.75	– .17	
Municipals:			
Bond Buyer–20 Bond Index* (2/17/83)	9.53%	– .19	– 3.43
Blue List Total ($ Million)	$ 981	– $ 6	+ $ 226
30-Day Visible Supply ($ Million)	$2,669	+ $546	+ $1,232
Total	$3,650	+ $540	+ $1,458
Corporates:			
Moody's Aa Composite (2/17/83)	12.52%	– .17	– 3.19
30-Day Visible Supply ($ Million) ‡	$ 310	– $100	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,092.82	+ 5.07	+ 268.52
Transportation	480.70	+ .95	+ 137.57
Utilities	124.12	+ .23	+ 19.21
65 Stocks	430.31	+ 1.57	+ 105.97
Standard and Poor's 500 Stocks	148.00	+ .50	+ 34.78
N.Y.S.E. Composite Index	85.44	+ .34	+ 20.01
N.Y.S.E. Avg. Daily Vol. for Week (000's)	79,272	– 5,888	+ 30,038

* 46% Taxable equivalent 17.65%.

‡Series redefined: Historical data not available.

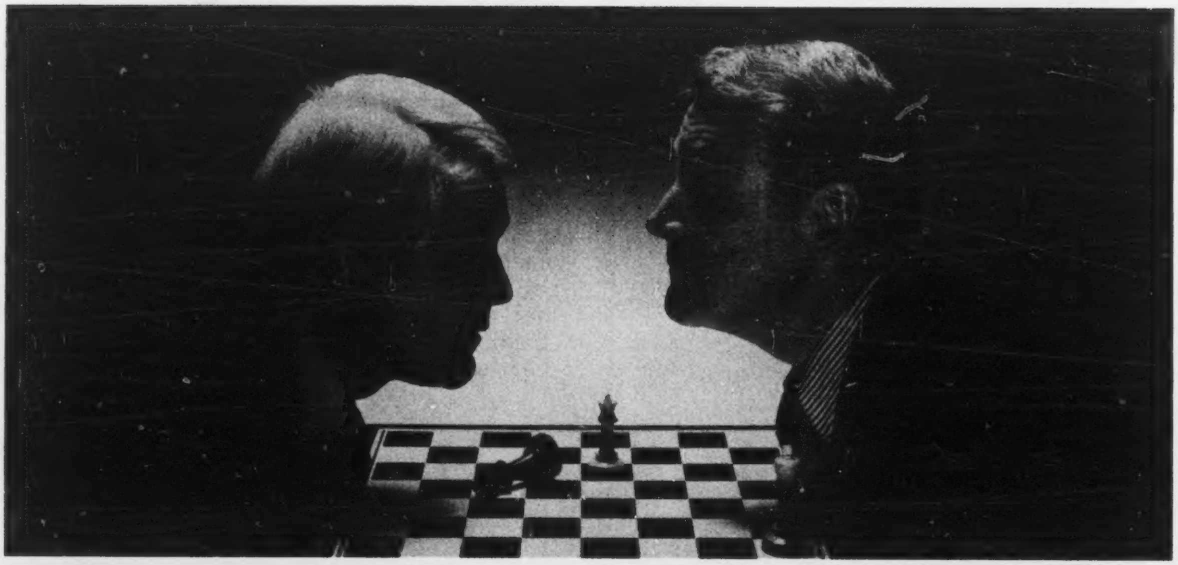
† Bond equivalent.

International Rates

	Friday 2/18/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.38%	8.63%
1 month	8.88	8.63
3 month	9.06	8.94
6 month	9.25	9.06
1 year	9.63	9.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.70%	11.70%
Long Term (7 to 15 yrs.)	11.85	11.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/18/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02109	47.41
Canada	.8161	1.2254
Denmark	.1174	8.5175
France	.1465	6.8250
Germany	.4160	2.4040
Italy	.0007207	1387.50
Japan	.004268	234.28
Mexico	.006431	155.50
Netherlands	.3762	2.6585
Switzerland	.5003	1.9990
U.K.	1.5440	.6477



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MANUFACTURERS HANOVER

B5350-2 3/1/83

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, FEBRUARY 28, 1983 VOLUME XX, NUMBER 9

The Drop In Oil Prices . . .

After nearly a year of uncertainty regarding OPEC's ability to set a common strategy for oil production and pricing, crude oil prices last week fell. The oil ministers of five Arab nations decided to cut prices, following the United Kingdom's and Norway's $3 drop and Nigeria's $5.50 per barrel reduction. Notwithstanding the huge oversupply of oil on world markets, many of the poorer, heavily populated OPEC members were unwilling to accept limits on their production. They are locked into development programs based on expectations of continuously rising revenues derived from oil exports and thus need to produce as much as possible, in the process exporting more than the market could absorb. The spot oil price, which reflects the world supply/demand balance, has been below the $34 per barrel "official" price for over a year and is currently around $28 per barrel.

The press has given plenty of attention to the negative aspects of falling petroleum prices. However, from here, it would appear that such concern is unwarranted. Undoubtedly, there will be some losing countries, industries and regions. But the overall economic benefits stemming from a resulting faster pace of business activity, less inflation, lower interest rates and improved corporate balance sheets will far outweigh whatever negative impact declining prices may have.

In the United States, for example, the decline in oil prices is expected to speed up the economic recovery, which is already underway. Within a year, each dollar per barrel decline could add 0.2 per cent to the growth rate of the real GNP. Consumers would be the major beneficiaries. A $4 per barrel drop in the average price of crude oil could shave about eight cents from the cost of a gallon of gasoline and home heating oil. Since spending on energy represents more than ten per cent of consumers' budgets, a decline in fuel prices will therefore result in a substantial saving for individual households, leaving more to be spent on other goods and services. In time, industrial production would be expanded, boosting demand not only for raw materials and machinery, but also for labor. Employment would rise at a faster pace than it otherwise would, putting more money into people's pockets.

. . . Is Good For The Economy

Probably the most important immediate effect of a drop in the price of petroleum would be lower worldwide inflation rates. In this country, every dollar per barrel drop should lower the rate of inflation by 0.2 per cent. The greatest benefits would accrue during the first six months following the cut. But further advantages would come in the year that follows—albeit at slower rates—as the lower cost of energy filters through the economy.

Even now, the rate of inflation has slowed dramatically. At the wholesale level, prices actually fell by one per cent in January—posting the biggest drop for any month in the postwar era. (If prices continued to drop at this rate for a full year, we would have double-digit deflation!) Much of this showed up at the retail level. In January, the consumer price index stabilized, following December's 0.3 per cent month-over-month decline. In fact, since November, the CPI declined by 1.2 per cent at an annual rate, making this the best three-month period for inflation in over 25 years.

In addition to the expected favorable impact of declining energy prices, there is more good news on the inflation front. The underlying or "core" rate of inflation—the long-term relationship between the cost of labor and capital—has been retreating for more than two years. The descent, which picked up speed in 1982, should continue this year as wage gains remain small and productivity rises. This

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deceleration in unit labor costs will put a lid on inflation, offsetting any upward price pressures that might result from the strengthening in economic activity.

Last year, plant closings and dramatic workforce reductions led to a 0.4 per cent rise in labor productivity. But this has happened only because businessmen laid off workers at a much faster pace than they trimmed output. In manufacturing, for example, output fell by 7.8 per cent in the final quarter of 1982, year-over-year, with a 9.1 per cent reduction in the number of hours worked. This year, productivity should rise at a faster rate. Traditionally, the greatest productivity gains are achieved during the early stages of recovery as businessmen are able to expand output faster than labor hours worked. What is more, productivity should rise as capacity utilization advances to more efficient levels.

More Signs Of Recovery

More encouraging economic news confirming that the recovery is slowly getting under way continues to be released by the government. Thanks to lower mortgage interest rates, construction was started on 1.7 million homes in January at a seasonally adjusted annual rate—nearly double the pace of a year ago. Inventories were reduced dramatically in most industries in the fourth quarter, paving the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 2/16/83	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies			
Owned Outright & RPs	142.757	+ .752	+ 6.074
Loans to Depository Inst.	.869	+ .497	– 1.039
Float	2.760	+ .736	+ .333
Total Reserve Bank Credit	156.050	+ 1.852	+ 5.016
Treasury Deposits with Federal Reserve Banks	3.271	– .185	– 1.297
Currency Outside Banks	135.420	+ 1.044	+ 9.416
Member Bank Reserves:			
Required	39.416	+ .384	– 2.022
Excess (Deficiency)	.952	+ .539	+ .384
Total Reserves Held	40.368	+ .923	– 1.638
Net Free Reserves	.396	+ .086	+ 1.375
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	113.251	+ 1.208	+19.610

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	489.5	+ 12.2‡	+ 8.9‡
M2 (January '83)	2,007.1	+ 16.1	+ 10.9
M3 (January '83)	2,399.7	+ 8.1	+ 10.0
L (September '82)	2,837.7	+ 10.4	+ 10.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 2/25/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.85%	7.90%	7.95%
* Federal Agencies	7.85	8.35	9.00
* Project Notes—Taxfree (46% Taxable Equivalent)	6.85	7.31	7.96
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.25	8.45	9.05

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.88%	Mar.	8.30%
15- 29 days	8.00	Apr.	8.30
30- 59 days	8.00	May	8.30
60- 89 days	8.00	Jun.	8.30
90-179 days	8.00	Jul.	8.35
180-239 days	8.00	Aug.	8.30
240-270 days	8.00		

‡ Industrial Paper—Prime			
30- 89 days	7.88%	† Federal Funds	
90-120 days	7.88	Effective Rate	8.20%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,474	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 1.9	0.7	– 5.3
Change in Consumer Prices (new series)*	Jan '83n	2.4%	– 3.6%	3.6%
Change in Producer Prices*	Jan '83	– 12.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons) †	Jan '83	99,103	99,093	99,688
Unemployment as % of Civilian Labor Force †	Jan '83	10.4%	10.8%	8.6%
Personal Income*	Jan '83	$ 2,639	$ 2,638	$ 2,499
Leading Indicators Composite Index (1967=100) †	Dec '82	132.8	130.8	127.1
Industrial Production Index (1967=100) †	Jan '83	136.2	135.0	140.7
Net Change in Consumer Installment Credit †	Dec '82	$ 2.19	$ 2.52	–$ 0.03
U.S. Merchandise Trade Balance †	Dec '82	–$ 3.37	–$ 4.09	–$ 1.81
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Jan '83	1,716	1,263	877
New Construction Expenditures*	Dec '82	$ 239.0	$ 235.8	$ 228.8
Total Business Inventories †	Dec '82	$ 505.6	$ 508.6	$ 519.4
Total Business Sales †	Dec '82	$ 332.7	$ 335.8	$ 341.3

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

way for output to increase. Industrial production rose in December and January, following declines in 14 out of the previous 16 months, while factory capacity utilization was stepped up last month for the first time in nearly a year. What is more, final demand, especially by the consumer sector, has picked up and businessmen's order books have started to fill up once again.

Furthermore, there are signs that the pace of business will pick up further. The 16 per cent rise in applications for building permits portends a further step-up in housing construction. The rise in the average workweek foreshadows another rise in employment which bodes well for the demand for consumer goods. The 4.5 per cent rise in new orders for durable goods presages more increases in industrial production in the coming months.

In January, industrial production rose 0.9 per cent month-over-month, posting the second largest increase in more than two years. Even more important, the improvement in industrial production seems to be spreading to more and more sectors of the economy. Whereas in November, less than one-fifth of the industries which reported results showed gains, a month later this proportion had more than doubled and in January nearly three-quarters of the available industries reported expansions in factory output.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/9/83)	117,089	– 1,134	–16,715
New York City (2/9/83)	31,681	– 408	– 2,879
Commercial Paper (2/9/83)	167,751	– 207	– 963*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/9/83)	216,714	– 1,851	+17,784
New York City (2/9/83)	60,537	– 880	+ 4,624

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/9/83)	501,559	– 5,637	+29,780
New York City (2/9/83)	117,322	– 2,389	+ 8,339

Financial Markets

	Friday 2/25/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.10%	– .15	– 4.75
180-Day Bills†	8.32	– .23	– 5.63
Longest Bills†	8.57	– .28	– 5.53
Recent Issues:			
9 5/8s 2/28/85 (When Issued)	9.30	NA	
10s 12/31/86	9.70	– .25	
10 7/8s 2/15/93	10.25	– .30	
10 3/8s 11/15/12	10.50	– .25	
Municipals:			
Bond Buyer–20 Bond Index* (2/24/83)	9.34%	– .19	– 3.36
Blue List Total ($ Million)	$1,045	+ $ 64	+ $243
30-Day Visible Supply ($ Million)	$2,275	– $394	+ $485
Total	$3,320	– $330	+ $728
Corporates:			
Moody's Aa Composite (2/24/83)	12.44%	– .08	– 3.02
30-Day Visible Supply ($ Million) ‡	$ 963	+ $653	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,120.94	+ 28.12	+ 296.55
Transportation	492.30	+ 11.60	+ 155.92
Utilities	124.82	+ .70	+ 17.59
65 Stocks	440.08	+ 9.77	+ 116.54
Standard and Poor's 500 Stocks	149.74	+ 1.74	+ 36.63
N.Y.S.E. Composite Index	86.34	+ .90	+ 21.01
N.Y.S.E. Avg. Daily Vol. for Week (000's)	95,828	+16,556	+ 39,586

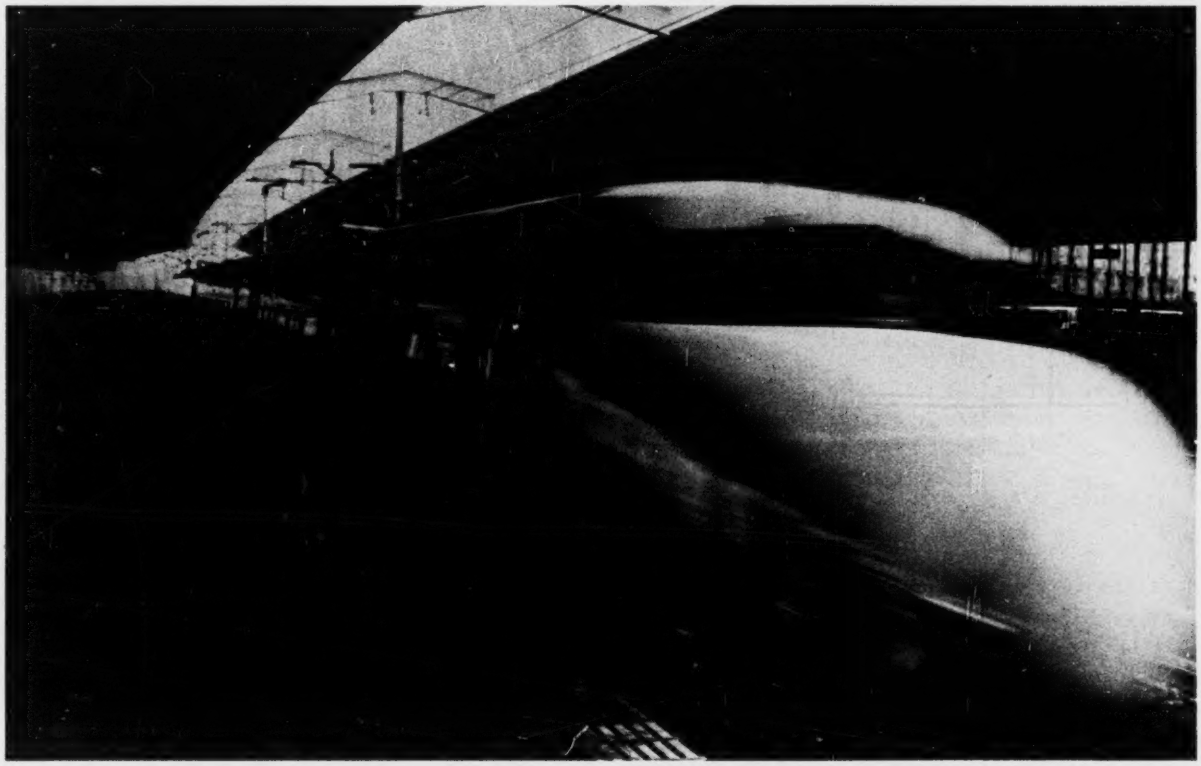
* 46% Taxable equivalent 17.30%.
‡Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/25/83	Week Ago
Overnight	8.25%	8.38%
1 month	8.75	8.88
3 month	8.88	9.06
6 month	9.13	9.25
1 year	9.38	9.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.60%	11.70%
Long Term (7 to 15 yrs.)	11.72	11.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/25/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02100	47.62
Canada	.8141	1.2284
Denmark	.1162	8.6075
France	.1458	6.8580
Germany	.4142	2.4145
Italy	.0007171	1394.50
Japan	.004257	234.93
Mexico	.006250	160.00
Netherlands	.3746	2.6695
Switzerland	.4925	2.0303
U.K.	1.5260	.6553



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MARCH 7, 1983
VOLUME XX, NUMBER 10

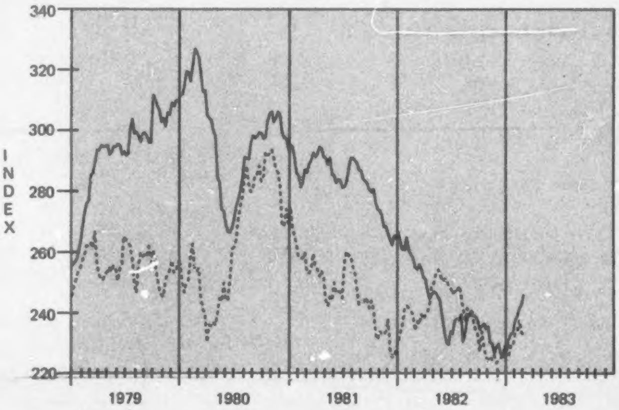
Commodity Prices Improve . . .

Yet another harbinger of better economic times ahead is the recent improvement in basic commodity prices (excluding oil). Prices for industrial raw materials have risen by eight per cent since the beginning of January and are now at their highest level since last May. Foodstuffs prices have increased by over three per cent in the same period (in spite of a recent slight decline) and are now back to the same level as in September of last year. But in spite of these price increases, the raw industrials index is still about 25 per cent below its all-time high in February, 1980, while food prices are about 20 per cent below their all-time high reached in November of that year (see chart). Thus, the inflationary impact of the present rise in commodity prices should not yet be a matter of concern.

Naturally, in any overall index, the performance of individual components is mixed. For example, copper prices have risen sharply in the past few months in anticipation of economic recovery and consequently improved demand for copper. On the other hand, gold and silver prices declined as the specter of inflation has receded. Because the precious metals market is particularly appealing to the speculator, prices are frequently volatile. Gold is usually held by investors as a hedge against inflation, although in recent years the price of gold has exceeded inflation to a substantial degree—probably due to its use as a store of value in times of political unrest (Financial Digest—March 22, 1982).

. . . But Gold's Luster Dims . . .

Recently, as inflation expectations have declined, demand for gold has subsided. Speculators have been particularly hard-hit because many of them purchased gold on margin. As the selling wave has accelerated, the gold market margin calls have, in many cases, forced liquidation of gold positions, adding to the selling pressure. A further factor depressing the price of gold is the expectation that two of the larger producers—the U.S.S.R. and South Africa—will be selling large amounts of gold again this year in order to replenish hard currency stocks. Arab oil exporters, too, may sell some of their gold stocks to raise dollars for their development projects. Gold prices reached a recent high of close to $510 per ounce in mid-February. Since then, the trend of prices has been downward, interspersed with brief rallies, but also with some dizzying plunges. For example, gold fell $42.50 per ounce in one day's trading last week. Another factor contributing to rapid and volatile changes in gold and precious metals prices is the relative thinness of the market. One large transaction will often move prices substantially, leading to market activity by more marginal participants. Thus, a substantial run-up or run-down in prices can develop quickly.



TUESDAY SPOT PRICE INDEXES
RAW INDUSTRIALS (LINE) VS. FOODSTUFFS (DOT)
(1967=100)

The silver market shares many of the characteristics of the gold market. But silver, in addition to being more plentiful than gold, also has a wider utility. Yet, in spite of the larger market for silver as well as the frequent presence in the market of large industrial buyers and sellers, it has proven to be even more volatile than the gold market, probably because the lower price of silver attracts more speculators than the gold market. Silver prices doubled during the last six months of 1982 while gold in the same period added about 67 per cent to its value. Silver prices peaked in mid-February (along with gold), but since then, they have eroded, too. Last week, silver prices were 25 per cent below

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their mid-February high compared with a drop of about 16 per cent for gold.

. . . Suggesting Recovery But Not Inflation

Although up somewhat from recent lows, agricultural commodity prices continue to suffer from the huge crop surpluses which resulted from last year's abundant world harvests combined with stagnant demand due to the global recession. Although demand has picked up since the end of last year, the continued existence of large stocks, particularly grains and sugar, will keep agricultural prices from rising as rapidly as prices for nonagricultural raw materials until the oversupply is worked down.

If world harvests are as bountiful this year as last, relatively modest agricultural price improvements may last the rest of this year. There may, of course, be some individual exceptions. Coffee prices, which are heavily influenced by the International Coffee Agreement, held up well in spite of the general price decline last year, but have weakened slightly in 1983. If the coffee producers are able to continue to control the supply of coffee, prices may rise again. Sugar prices, however, have plunged. Last week, sugar prices were one-half their value in the same week one year ago. With existing huge sugar

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/23/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	145.451	+ 2.694	+ 8.897
Loans to Depository Inst.	.476	− .393	− 1.426
Float	1.665	− 1.001	− 2.378
Total Reserve Bank Credit	156.518	+ .562	+ 5.142
Treasury Deposits with Federal Reserve Banks	3.221	− .050	− 3.472
Currency Outside Banks	136.591	+ 1.171	+10.678
Member Bank Reserves:			
Required	39.390	− .026	− 1.270
Excess (Deficiency)	.400	− .458	+ .397
Total Reserves Held	39.790	− .484	− .873
Net Free Reserves	.304	+ .002	+ 1.835
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.441	− .810	+18.031

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	492.5	+ 13.5‡	+ 9.6‡
M2 (January '83)	2,007.1	+ 16.1	+ 10.9
M3 (January '83)	2,399.7	+ 8.1	+ 10.0
L (September '82)	2,837.7	+ 10.4	+ 10.1

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 3/4/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.75%	7.75%	7.75%
* Federal Agencies	7.65	8.15	8.75
* Project Notes—Taxfree (46% Taxable Equivalent)	7.13	7.31	7.87
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.30	8.40	8.95

‡Finance Company Paper—Prime	
5- 14 days	8.38%
15- 29 days	8.25
30- 59 days	8.25
60- 89 days	8.13
90-179 days	8.00
180-239 days	8.00
240-270 days	8.00

‡* Bankers' Acceptances	
Apr.	8.35%
May	8.30
Jun.	8.25
Jul.	8.30
Aug.	8.30
Sep.	8.20

‡Industrial Paper—Prime	
30- 89 days	8.30%
90-120 days	8.25

†Federal Funds	
Effective Rate	8.45%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,474	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	− 1.9	0.7	− 5.3
Change in Consumer Prices (new series)*	Jan '83	2.4%	− 3.6%	3.6%
Change in Producer Prices*	Jan '83	− 12.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons) †	Feb '83n	99,063	99,103	99,695
Unemployment as % of Civilian Labor Force †	Feb '83n	10.4%	10.4%	8.8%
Personal Income*	Jan '83	$ 2,639	$ 2,638	$ 2,499
Leading Indicators Composite Index (1967=100) †	Jan '83n	146.3	141.2	135.1
Industrial Production Index (1967=100) †	Jan '83	136.2	135.0	140.7
Net Change in Consumer Installment Credit †	Dec '82	$ 2.19	$ 2.52	−$ 0.03
U.S. Merchandise Trade Balance †	Jan '83n	−$ 2.96	−$ 3.20	−$ 4.36
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Jan '83	1,716	1,263	877
New Construction Expenditures*	Jan '83n	$ 255.5	$ 234.7	$ 225.1
Total Business Inventories †	Dec '82	$ 505.6	$ 508.6	$ 519.4
Total Business Sales †	Dec '82	$ 332.7	$ 335.8	$ 341.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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inventories, no prospects for significant improvement are in sight.

Industrial commodity prices have responded quickly to the U.S. economic upturn. The recovery in industrial activity which is beginning to be evident in the United States has, along with falling interest rates and still low prices, encouraged some restocking of depleted inventories in anticipation of further growth in production as the recovery progresses. This is the major reason for the somewhat better price performance of the raw industrials index. Inventories of many industrial inputs were not replenished during the extended recession in spite of low prices, due to high carrying costs and the bleak prospects for recovery. Hence, unlike users of agricultural commodities, raw industrials users entered the economic upturn prepared to buy.

Rising prices for commodities have both good and bad aspects. On the one hand, rising commodity prices mean improved returns for producers—both domestic and foreign—which translate into more jobs and faster economic growth. On the other hand, rising costs of commodities can also eventually add to inflation. On balance, however, the present rise in commodity prices appears beneficial. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/16/83)	114,999	– 2,108	–15,463
New York City (2/16/83)	31,369	– 312	– 1,466
Commercial Paper (2/16/83)	168,118	+ 367	– 1,585*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/16/83)	217,068	+ 364	+17,088
New York City (2/16/83)	60,709	+ 172	+ 4,974

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/16/83)	502,213	+ 679	+27,467
New York City (2/16/83)	117,884	+ 562	+ 8,032

Financial Markets

	Friday 3/4/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.27%	+ .17	– 3.91
180-Day Bills†	8.45	+ .13	– 4.40
Longest Bills†	8.64	+ .07	– 4.26
Recent Issues:			
$9^{5}/_{8}$s 2/28/85	9.30	0.00	
10s 12/31/86	9.70	0.00	
$10^{7}/_{8}$s 2/15/93	10.30	+ .05	
$10^{3}/_{8}$s 11/15/12	10.48	– .02	
Municipals:			
Bond Buyer–20 Bond Index* (3/3/83)	9.04%	– .30	– 3.49
Blue List Total ($ Million)	$1,163	+$ 118	+ $ 359
30-Day Visible Supply ($ Million)	$3,438	+$1,163	+ $1,173
Total	$4,601	+$1,281	+ $1,532
Corporates:			
Moody's Aa Composite (3/3/83)	12.25%	– .19	– 2.96
30-Day Visible Supply ($ Million) ‡	$ 883	–$ 80	NA
Stocks.			
Dow-Jones Averages:			
Industrials	1,140.96	+ 20.02	+ 333.60
Transportation	511.12	+ 18.82	+ 188.30
Utilities	129.29	+ 4.47	+ 21.61
65 Stocks	451.70	+ 11.62	+ 135.45
Standard and Poor's 500 Stocks	153.67	+ 3.93	+ 44.33
N.Y.S.E. Composite Index	88.63	+ 2.29	+ 25.49
N.Y.S.E. Avg. Daily Vol. for Week (000's)	101,166	+ 5,338	+ 35,306

* 46% Taxable equivalent 16.74%.

‡ Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/4/83	Week Ago
Overnight	8.63%	8.25%
1 month	8.69	8.75
3 month	8.75	8.88
6 month	8.88	9.13
1 year	9.00	9.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.55%	11.60%
Long Term (7 to 15 yrs.)	11.65	11.72

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/4/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02096	47.70
Canada	.8181	1.2223
Denmark	.1150	8.6950
France	.1457	6.8655
Germany	.4132	2.4202
Italy	.0007119	1404.50
Japan	.004229	236.48
Mexico	.006116	163.50
Netherlands	.3737	2.6763
Switzerland	.4876	2.0510
U.K.	1.5139	.6605

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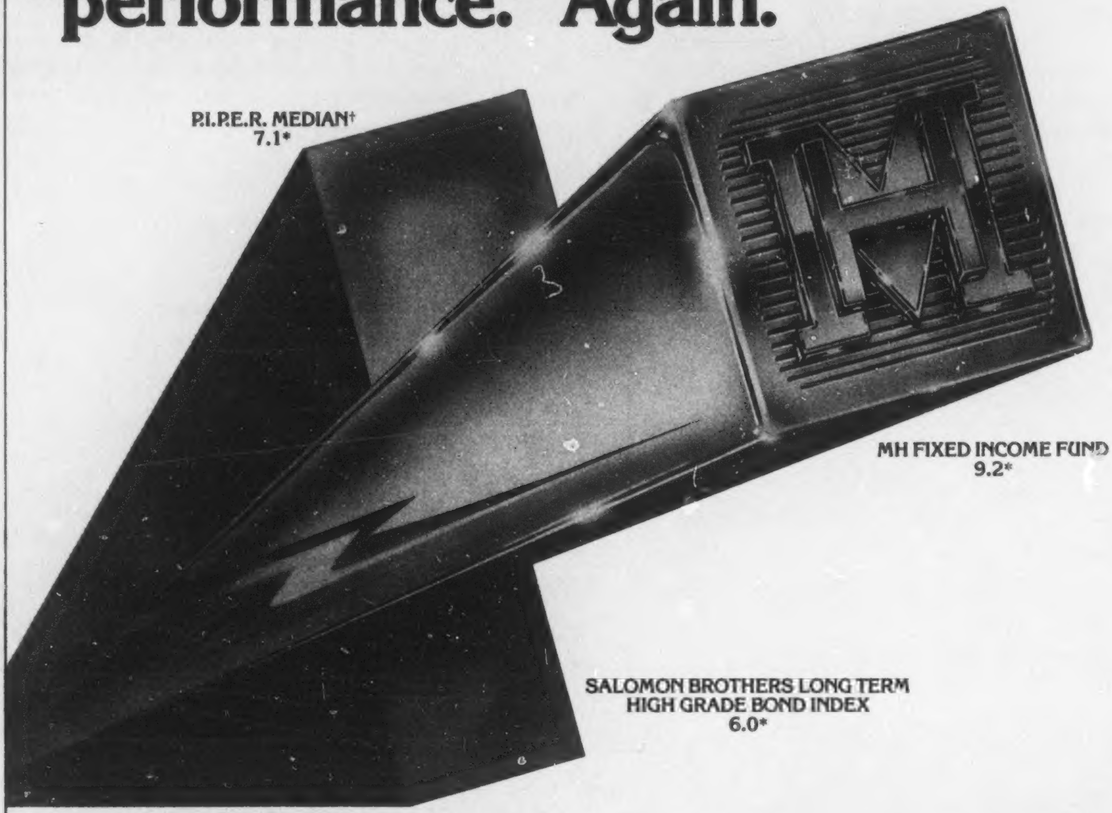
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6.0*

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*These numbers are annual time-weighted rates of return for the ten year period ending December 31, 1982.
†Pension and Investments Performance Evaluation Report–Pooled Fixed Income Funds of Banks and Insurance Companies

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MARCH 14, 1983 VOLUME XX, NUMBER 11

The End Of Inventory Liquidation . . .

On the surface, the economy seems to be snapping back rather briskly from the long recession. Preliminary estimates indicate that the "real" GNP may have grown at an annual rate of close to five per cent in the first quarter, compared with the final quarter of 1982—the biggest quarterly increase in two years. The purchasing managers of the nation's 250 largest industrial companies report that during the two months ending in February, activity in their industries rebounded at a much faster pace than was average for the comparable time period following previous postwar recessions. New factory orders rose 2.4 per cent in January—posting their third consecutive monthly gain—while manufacturers' backlogs of orders increased for the second month in a row after 16 months of declines.

But the pace of business is not as fast as the top-line GNP numbers suggest. The reason for this is what appears to be a sharp swing in inventories. After a massive liquidation in the fourth quarter, inventories seem to have leveled out—if not actually increased in the first. The way the GNP numbers are put together, even if final sales, the most important indicator of economic activity, do not rise at all, an end to inventory liquidation still boosts the real GNP—in this case by as much as five per cent, at an annual rate.

. . . Will Boost The GNP . . .

The drawdown of inventories in the fourth quarter stemmed from sharply improving final demand as consumers reacted quickly to declining interest rates and the slowdown in inflation. Early in the quarter, however, less and less was produced as output of the nation's factories continued its protracted decline. But by yearend, more than two-thirds of the nation's major industries were stepping up production, in sharp contrast to just three months earlier, when production declined in more than 75 per cent of these industries.

It would seem, however, that businessmen as well as consumers remain cautious, especially when committing themselves to large purchases. They still feel the effects of the long recession and seem to be inclined to save their money rather than spend it, at least until they are assured that things will continue to get better. Many businessmen were burned by becoming too exuberant during the short-lived recovery which followed the 1980 recession.

Consumer spending is usually influenced to a large extent by people's near-term outlook on the economy in general and their own income prospects in particular. Consumer confidence has improved lately, as measured by the Conference Board's consumer attitudes survey. But while people seem to be encouraged about overall business conditions in the months ahead, more than 75 per cent of the respondents believe that the employment situation will not improve over the near term.

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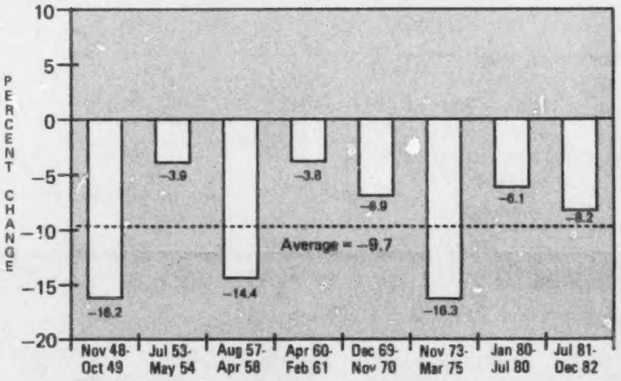
IN CYCLICAL PERSPECTIVE



. . . But Businessmen And Consumers . . .

Consumers seem to be loosening their purse strings, but slowly. It seems that people have adopted a "wait-and-see" attitude—waiting for consumer finance rates to come down, and hoping prices will decline, too. So after increasing sharply in the fourth quarter, sales appear to have softened once again. Indeed, retail sales declined 0.4 per cent in February, month over month, following January's downward-revised 0.5 per cent decrease. More

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specifically, after reacting with enthusiasm in the fourth quarter to the interest rate subsidies offered by the Big Three's financial arms, new car buyers pulled in their horns in the first, causing sales to stall at a six million unit pace. Housing activity has jumped sharply, but the drop in mortgage interest rates has slowed and may soon cause construction to level off.

The employment picture remains a reason for much concern. Although the unemployment rate was unchanged in February, a closer look reveals that in some instances the employment situation may have actually worsened a bit. For example, the unemployment rate for adult men rose by 0.3 percentage points to 9.9 per cent, while payroll employment declined by 0.2 per cent month-over-month, following an increase in the previous month. The decline was concentrated in retail and wholesale trade and construction—precisely those industries which posted large gains in January. In February half of the 20 largest industries reduced their payrolls of production workers, while in January only five industries cut their workforce. However, a large part of this deterioration may be attributed to February's unfavorable weather. Blizzards swept the country in mid-month, just at the time when this survey was taken. Those workers who retained their jobs undoubtedly worked fewer hours, for the average workweek in manufacturing—

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/2/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	143.728	− 1.723	+ 8.544
Loans to Depository Inst.	.710	+ .234	− .852
Float	2.387	+ .787	− .750
Total Reserve Bank Credit	155.821	− .632	+ 6.567
Treasury Deposits with Federal Reserve Banks	2.896	− .325	− 1.032
Currency Outside Banks	135.880	− .698	+10.907
Member Bank Reserves:			
Required	39.345	− .045	− 1.197
Excess (Deficiency)	.567	+ .232	+ .054
Total Reserves Held	39.912	+ .187	− 1.143
Net Free Reserves	.195	− .044	+ .809
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	114.134	+ 1.693	+19.524

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1	492.7	+ 14.7‡	+ 9.6‡
M2 (February '83)	2,047.5	+ 21.1	+ 12.8
M3 (February '83)	2,427.3	+ 9.7	+ 10.8
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 3/11/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.03%	8.21%	8.44%
* Federal Agencies	5.59	7.71	8.33
* Project Notes—Taxfree (46% Taxable Equivalent)	7.41	7.50	8.70
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.65	8.85	9.35

‡Finance Company Paper—Prime	
5- 14 days	8.38%
15- 29 days	8.38
30- 59 days	8.50
60- 89 days	8.50
90-179 days	8.38
180-239 days	8.38
240-270 days	8.38

‡* Bankers' Acceptances	
Apr.	8.40%
May	8.40
Jun.	8.40
Jul.	8.45
Aug.	8.40
Sep.	8.35

‡Industrial Paper—Prime	
30- 89 days	8.38%
90-120 days	8.38

†Federal Funds	
Effective Rate	8.35%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,474	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	− 1.9	0.7	− 5.3
Change in Consumer Prices (new series)*	Jan '83	2.4%	− 3.6%	3.6%
Change in Producer Prices*	Jan '83	− 12.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons)†	Feb '83	99,063	99,103	99,695
Unemployment as % of Civilian Labor Force†	Feb '83	10.4%	10.4%	8.8%
Personal Income*	Jan '83	$ 2,639	$ 2,638	$ 2,499
Leading Indicators Composite Index (1967=100)†	Jan '83	146.3	141.2	135.1
Industrial Production Index (1967=100) †	Jan '83	136.2	135.0	140.7
Net Change in Consumer Installment Credit†	Jan '83n	$ 2.93	$ 2.42	$ 0.42
U.S. Merchandise Trade Balance †	Jan '83	−$ 2.96	−$ 3.20	−$ 4.36
Plant and Equipment Expenditures*	2nd Q'83n	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Jan '83	1,716	1,263	877
New Construction Expenditures*	Jan '83	$ 255.5	$ 234.7	$ 225.1
Total Business Inventories †	Jan '83n	$ 501.0	$ 504.3	$ 516.3
Total Business Sales †	Jan '83n	$ 340.5	$ 334.3	$ 334.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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a harbinger of future employment prospects—was cut by almost an hour.

. . . Remain Slow To Spend

Businessmen have also been cautious about spending--especially on plant and equipment. Profits have been too weak to finance large purchases internally, while the cost of external funds remains high. Almost one-third of operating capacity is sitting idle because factory output is about 11½ per cent below its 1981 peak. Following the three major postwar recessions, when investment fell by an average of nearly 16 per cent, capacity utilization first rebounded to above 80 per cent before a revival in investment got underway.

While the current capital investment decline so far has been less severe than the postwar average (see chart on page 1) it may be some time before outlays pick up. According to the Commerce Department's latest survey of business capital spending plans, additional cutbacks in outlays for new plant and equipment are planned for at least two more quarters. This ties in with a survey taken by the Conference Board which shows that the nation's 1,000 largest manufacturers canceled or reduced previously approved projects to the tune of $2 billion in the fourth quarter of 1982. This was topped only by the record $3.1 billion in cancellations in the previous quarter.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/23/83)	113,302	– 1,405	–21,865
New York City (2/23/83)	30,813	– 430	– 2,511
Commercial Paper (2/23/83)	168,266	+ 142	– 437*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/23/83)	216,219	– 837	+16,370
New York City (2/23/83)	59,796	– 913	+ 3,813

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/23/83)	499,420	– 2,780	+23,387
New York City (2/23/83)	115,221	– 2,663	+ 4,843

Financial Markets

	Friday 3/11/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.51%	+ 0.24	– 4.76
180-Day Bills†	8.71	+ 0.26	– 5.20
Longest Bills†	8.94	+ 0.30	– 5.11
Recent Issues:			
$9^{5}/_{8}$s 2/28/85	9.63	+ 0.33	
10s 12/31/86	9.97	+ 0.27	
$10^{7}/_{8}$s 2/15/93	10.54	+ 0.24	
$10^{3}/_{8}$s 11/15/12	10.72	+ 0.24	
Municipals:			
Bond Buyer--20 Bond Index* (3/10/83)	9.22%	+ .18	– 3.49
Blue List Total ($ Million)	$1,251	+ $ 88	+ $ 164
30-Day Visible Supply ($ Million)	$4,132	+ $694	+ $2,086
Total	$5,383	+ $782	+ $2,250
Corporates:			
Moody's Aa Composite (3/10/83)	12.39%	+ .14	– 2.83
30-Day Visible Supply ($ Million) ‡	$ 850	– $ 33	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,117.74	– 23.22	+ 320.37
Transportation	503.34	– 7.78	+ 183.34
Utilities	126.98	– 2.31	+ 20.97
65 Stocks	443.36	– 8.34	+ 130.85
Standard and Poor's 500 Stocks	151.24	– 2.43	+ 42.63
N.Y.S.E. Composite Index	87.29	– 1.34	+ 24.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,122	–19,044	+ 20,986

* 46% Taxable equivalent 17.07%.

‡Series redefined: Historical data not available.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/11/83	Week Ago
Overnight	8.50%	8.63%
1 month	9.06	8.69
3 month	9.19	8.75
6 month	9.38	8.88
1 year	9.50	9.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.70%	11.55%
Long Term (7 to 15 yrs.)	11.80	11.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/11/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02125	47.05
Canada	.8167	1.2245
Denmark	.1153	8.6700
France	.1443	6.9300
Germany	.4184	2.3900
Italy	.0006983	1432.00
Japan	.004249	235.33
Mexico	.006154	162.50
Netherlands	.3779	2.6465
Switzerland	.4871	2.0530
U.K.	1.5030	.6653

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3/21/83

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 21, 1983 VOLUME XX, NUMBER 12

A Variety Of Reasons . . .

Just when it appeared that the Federal Reserve would continue to avoid responding to rapid growth in the monetary aggregates because of deposit innovation and financial deregulation—not to mention the needs of the real economy—Chairman Paul A. Volcker told the House Budget Committee in early March that speedy M1 growth is ". . . something we have to keep our eye on very closely." Needless to say, this statement promptly caused interest rates to back up, since it appeared that the central bank would again focus on the money supply and take steps to restrain its growth. But before despairing that the Fed is about to tighten the monetary reins and short-circuit the economic recovery, it pays to look at some reasons why the near-term formulation of monetary policy will probably continue to be based on an eclectic blend of considerations.

To be sure, the economy did display an unexpectedly strong momentum earlier this year, raising the prospect of a robust recovery, accelerating money supply growth and, ultimately, a reawakening of inflation expectations. However, despite the substantial increase in housing starts and new home sales, as well as the long-awaited upturn in factory orders, output and capacity utilization rates, the combination of persistent consumer caution and lofty real interest rates continues to act as a drag on the recovery. Auto sales have plateaued at about the six million unit annual rate level, non-auto retail sales are flat and, just last week, it was reported that industrial production rose by only 0.3 per cent in February month-over-month—much less than the hefty 1.3 per cent rise posted in January. What all this suggests is that after an initial burst of activity, the pace of recovery has slowed and that, if anything, additional interest rate relief may be necessary if the recovery momentum is to be maintained. Thus, for economic reasons alone, an abrupt firming of the monetary reins, by causing a sharp jump in interest rates, would probably bring the nascent economic rebound to a halt.

. . . Economic, Financial And Political . . .

But economic reasons are not the only ones forestalling a return to mechanical monetarism. Domestic as well as foreign financial considerations also warrant further interest rate relief. Only recently has corporate America been able to begin redressing its badly worn balance sheets. Company after company is now taking advantage of buoyant bond and equity markets to fund some of their substantial overhang of short-term debt. In so doing, of course, they are trying to reduce their vulnerability to abrupt changes in the availability and cost of short-term credit. Indeed, with short-term credit demands fading and the pace of long-term debt acquisitions rising, the ratio of short-term to total corporate liabilities declined modestly in both the third and fourth quarters of 1982, the first back-to-back quarterly declines in this ratio since mid-1980.

Overseas, the signs of recovery appearing on the horizon are just too fragile to endure an upward interest rate spike. With not a few developing countries still plagued by liquidity problems, only a combination of interest rate relief and the resumption of economic growth in the industrial countries can set the stage for their economic revival—a necessary precondition for an easing of their liquidity difficulties. Putting both domestic and foreign financial considerations together clearly suggests that if capital spending and exports are ever to contribute to this recovery, interest rates must at least remain stable, if not drop lower.

For their part, political considerations suggest a continuation of recent monetary policy in the coming months. With several bills slowly winding their way through Congress intended to limit the policy independence of the Fed, a firming of the credit reins now, with the recovery only beginning and lofty rates of unemployment and business failures persisting, may well hasten this process.

. . . Suggests That The Federal Reserve . . .

If these considerations are not sufficient to encourage the Fed to maintain a generally accommodative monetary policy, neither are trends in the monetary

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aggregates sufficiently convincing to warrant a firming of the credit reins. For while the growth of M1 is well above the 1983 upper target boundary of eight per cent, its recent surge should ease in coming months in light of prevailing low rates of inflation and soggy short-term business loan demand.

In the case of M2, its growth is being allowed to swing freely in February and March, thereby establishing the base from which 1983's growth paths will be calculated. Furthermore, the significance of its rapid rate of rise is clearly being distorted by the popularity of the recently-introduced money market deposit accounts, which are included in M2. Since their introduction in mid-December, the level of these accounts has ballooned to almost $300 billion, and now accounts for almost 15 per cent of the M2 money supply. And because no one is really sure where all these funds have come from, it is almost impossible for the policymakers to separate precisely the effects of shifting liquidity preferences on the part of the public from underlying money growth trends. In this environment, doing nothing may be the most appropriate course of action.

While it may be unclear as to the origins of the funds now contributing to the strong growth of the money market accounts, it is less difficult to identify some of the winners and losers in this deposit sweepstakes. One of the most noticeable

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/9/83	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	143.244	− .484	+11.711
Loans to Depository Inst.	.628	− .082	− .818
Float	2.371	− .100	− .767
Total Reserve Bank Credit	154.922	− .983	+ 9.961
Treasury Deposits with Federal Reserve Banks	3.709	+ .813	+ .079
Currency Outside Banks	136.705	+ .811	+11.733
Member Bank Reserves:			
Required	36.837	− 2.471	− 1.319
Excess (Deficiency)	.569	− .103	+ .266
Total Reserves Held	37.406	− 2.574	− 1.053
Net Free Reserves	.282	− .018	+ .968
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	108.925	− 5.209	+13.661
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1	497.8	+ 14.8‡	+ 10.0‡
M2 (February '83)	2,047.5	+ 21.1	+ 12.8
M3 (February '83)	2,427.3	+ 9.6	+ 10.8
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 3/18/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.85%	7.90%	8.00%
* Federal Agencies	8.20	8.60	9.00
* Project Notes–Taxfree (46% Taxable Equivalent)	8.52	8.33	8.89
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.85	9.05	9.50

‡Finance Company Paper–Prime	
5- 14 days	8.38%
15- 29 days	8.38
30- 59 days	8.63
60- 89 days	8.50
90-179 days	8.50
180-239 days	8.50
240-270 days	8.50

‡* Bankers' Acceptances	
Apr.	8.60%
May	8.60
Jun.	8.60
Jul.	8.60
Aug.	8.60
Sep.	8.60

‡Industrial Paper–Prime	
30- 89 days	8.50%
90-120 days	8.50

†Federal Funds	
Effective Rate	8.75%

‡Discount basis. *Subject to availability. †Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,474	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	− 1.9	0.7	− 5.3
Change in Consumer Prices (new series)*	Jan '83	2.4%	− 3.6%	3.6%
Change in Producer Prices*	Feb '83n	1.2%	− 12.0%	1.2%
Civilian Employment (Thousands of Persons)†	Feb '83	99,063	99,103	99,695
Unemployment as % of Civilian Labor Force†	Feb '83	10.4%	10.4%	8.8%
Personal Income*	Feb '83n	$ 2,643	$ 2,640	$ 2,514
Leading Indicators Composite Index (1967=100)†	Jan '83	146.3	141.2	135.1
Industrial Production Index (1967=100) †	Feb '83n	137.3	136.9	142.9
Net Change in Consumer Installment Credit†	Jan '83	$ 2.93	$ 2.42	$ 0.42
U.S. Merchandise Trade Balance †	Jan '83	−$ 2.96	−$ 3.20	−$ 4.36
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Feb '83n	1,756	1,707	911
New Construction Expenditures*	Jan '83	$ 255.5	$ 234.7	$ 225.1
Total Business Inventories †	Jan '83	$ 501.0	$ 504.3	$ 516.3
Total Business Sales †	Jan '83	$ 340.4	$ 334.3	$ 334.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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winners is the hard-pressed thrift industry, which now holds $117 billion of these new accounts. Although some of this represents either the conversion of existing passbook accounts or the runoff of six-month money market certificates, these institutions did record a net deposit inflow, excluding interest credited, of $27 billion during the two months ending January 31, 1983. This offset almost completely the $29 billion net deposit loss of the first 11 months of 1982. It also helped set the stage for the revival of the housing industry.

. . . Will Remain Accommodative

The efforts by the commercial banks to market the new accounts has also met with success. These institutions hold almost $170 billion of these accounts. And, once again, while all of this is not new money, the deposit inflows have been big enough to allow the commercial banks to shed a good-sized chunk of their jumbo certificates of deposit outstanding. Since December 15, these large CDs have dropped by $38 billion, or 14 per cent. Because they are a component of M3, their runoff has contributed to the more subdued growth of this broader aggregate. Over the past three months, M3 has grown at a 9.6 per cent seasonally adjusted annual rate—less than one-half the rate of rise in M2 over the same period. This has probably added to the monetary authorities' doubts regarding the aggregates.

(continued on back page)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/2/83)	111,316	– 1,981	–22,778
New York City (3/2/83)	30,832	+ 19	– 2,014
Commercial Paper (3/2/83)	167,661	– 605	– 1,148*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/2/83)	218,296	+ 2,078	+18,566
New York City (3/2/83)	60,181	+ 385	+ 4,653

	Total Loans Gross Adjusted: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/2/83)	507,846	+ 8,505	+32,017
New York City (3/2/83)	120,079	+ 4,858	+10,388

Financial Markets

	Friday 3/18/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.85%	+ .34	– 4.64
180-Day Bills†	9.00	+ .29	– 4.49
Longest Bills†	9.26	+ .32	– 4.65
Recent Issues:			
9⅝s 3/31/85 (When Issued)	9.85	NA	
10s 12/31/86	10.05	+ .08	
10⅞s 2/15/93	10.60	+ .06	
10⅜s 11/15/12	10.72	0.00	
Municipals:			
Bond Buyer–20 Bond Index* (3/17/83)	9.19%	– .03	– 3.80
Blue List Total ($ Million)	$1,264	+ $ 13	+ $ 330
30-Day Visible Supply ($ Million)	$3,530	– $602	+ $1,179
Total	$4,794	– $589	+ $1,609
Corporates:			
Moody's Aa Composite (3/17/83)	12.35%	– .04	– 2.84
30-Day Visible Supply ($ Million)	$1,197	+ $347	– $1,438
Stocks:			
Dow-Jones Averages:			
Industrials	1,117.74	–0–	+ 312.09
Transportation	506.27	+ 2.93	+ 177.11
Utilities	126.25	– .73	+ 19.67
65 Stocks	443.81	+ .45	+ 126.62
Standard and Poor's 500 Stocks	149.90	– 1.34	+ 39.29
N.Y.S.E. Composite Index	86.37	– .92	+ 22.75
N.Y.S.E. Avg. Daily Vol. for Week (000's)	70,710	–11,412	+ 22,032

* 46% Taxable equivalent 17.02%.

† Bond equivalent.

International Rates

	Friday 3/18/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.50%	8.50%
1 month	8.75	9.06
3 month	9.00	9.19
6 month	9.38	9.38
1 year	9.50	9.50
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.70%	11.70%
Long Term (7 to 15 yrs.)	11.80	11.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/18/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02121	47.14
Canada	.8164	1.2249
Denmark	.1160	8.6200
France	.1443	6.9300
Germany	.4180	2.3922
Italy	.0007017	1425.00
Japan	.004170	239.83
Mexico	.006231	160.50
Netherlands	.3762	2.6580
Switzerland	.4846	2.0635
U.K.	1.4950	.6689

While the commercial banks and thrifts have gained deposits, the money market funds have been losing them—indeed, almost nonstop in recent weeks. The assets of these funds currently total $186 billion, or $40 billion lower than mid-December levels. So, too, has the commercial paper market been contracting, with nonfinancial commercial paper declining from $51 billion in early December to $48 billion currently.

The Federal government may be a loser, too. Since the new accounts are Federally-insured and, at least initially, offered a yield substantially above three-month Treasury bill rates, it is possible that the government securities market also contributed to the success of the banks' new money market deposit accounts. If so, it may partially explain why yields on the money market accounts and Treasury bills have moved in divergent directions since mid-December. As of early March, with banks lowering their payouts and Treasury bill rates rising, the yield spread has reversed. Treasury bill rates now exceed bank money market account rates by almost 50 basis points! H

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B5350-2 3/28/83

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, MARCH 25, 1983 VOLUME XX, NUMBER 13

A Welcome Improvement . . .

Despite the lackluster outlook for capital spending, not all of the news from corporate America is bleak. Indeed, several signs suggest quite the opposite. Because the slide in corporate profits has ended and business capital spending has been slashed, corporate cash flow has begun to outpace business outlays. What is more, with excess funds now on hand, short-term corporate borrowing needs have softened substantially, easing pressures not only in the financial markets, but also on badly worn corporate balance sheets.

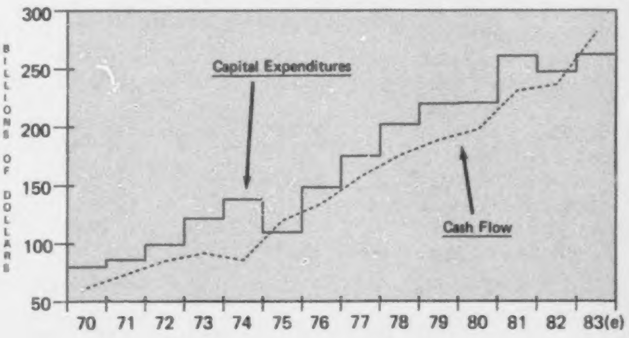
According to the Federal Reserve's Flow of Funds Accounts, business cash flow, consisting primarily of retained earnings plus depreciation, exceeded corporate capital outlays by a rate of almost $7 billion during the final three months of 1982—a massive $34 billion turnaround compared with the third quarter. This marked the first corporate surplus since fourth quarter 1975—and only the fourth time during any quarter since 1964 that cash flow has outstripped business outlays. To be sure, although the growth of corporate cash flow did begin to revive late last spring as the free-fall in corporate profits abated and the growth of depreciation allowances gained momentum, its rebound was subdued at best. By the end of last year, cash flow stood only two per cent above the low point reached during the first quarter of 1982.

. . . In Corporate Financial Health

With final sales soggy and lofty interest rates persisting, corporations slashed inventories at a huge $41 billion seasonally adjusted annual rate clip during 1982's final quarter. And because capacity utilization rates fell to postwar lows, new plant and equipment spending was trimmed by a $4½ billion annual rate, or two per cent, at the same time. Thus, with both inventories and plant and equipment spending pared, business outlays ran at a seasonally adjusted $231 billion annual rate during the October-December period, 14 per cent below the previous quarter's level. Within the space of three months, U.S. nonfinancial corporations had abruptly brought spending into alignment with cash flow.

Unless a sustained rebound in final sales develops, the pace of corporate capital spending will remain weak. Cash flow growth, in contrast, will continue to be bolstered by enhanced depreciation allowances, if nothing else. This suggests that internally-generated funds could exceed capital outlays for the full year 1983. If so, this would mark only the second time since 1964; the other year was 1975 (see chart).

NONFINANCIAL CORPORATIONS:
CAPITAL EXPENDITURES VS. INTERNAL FUNDS



Unequal Regional Recessions . . .

The Commerce Department's "flash" report that real GNP probably expanded at a four per cent seasonally adjusted annual rate in the first quarter confirms the belief that the long-awaited recovery is under way. The thing to remember, however, is that as recovery unfolds, its effects will not be shared equally by all regions. The 1981-82 recession's impact varied widely from region to region. In some parts of the country, the regional slump preceded the national decline, while in other areas, local economies succumbed to the national downturn much later.

The nation's industrial heartland and the Pacific Northwest, for example, both suffered a severe blow from the recession on top of long structural declines. On the other hand, both New England and the Middle Atlantic regions, in sharp contrast to their 1973-75 experiences, weathered the latest downturn better than the nation as a whole. This

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was because of shifts in their manufacturing bases from such mature industries as textiles and apparel, toward defense, electronics and telecommunications.

. . . Mean Unequal Regional Recoveries

Most regions, however, face a long and hard road back from recession. The major roadblock in many parts of the country is high unemployment. Jobless rates are currently at or above the national average in 19 states. West Virginia leads the list with a record 20.4 per cent unemployment rate in January, trailed by Michigan (17.0 per cent) and Alabama (16.6 per cent). Job losses in manufacturing industries contributed to the high unemployment rates in Alabama and Michigan, while a steep reduction in coal mining employment was the principal factor in West Virginia. And, as a result of cutbacks in steel output earlier this year, two areas in Pennsylvania—Johnstown and Sharon—posted jobless rates of 24.8 per cent, and 23.9 per cent, respectively—the nation's highest.

Recent economic developments have brought hope to many parts of the country that growth will revive. States dependent on motor vehicle production, as well as the steel and lumber industries will be among the first to feel the improvement. Domestic new-car assemblies rose to a seasonally

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 3/16/83	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	144.064	+ .820	+ 9.962
Loans to Depository Inst.	.894	+ .266	– .568
Float	1.748	– .565	– .440
Total Reserve Bank Credit	155.556	+ .692	+ 8.741
Treasury Deposits with Federal Reserve Banks	3.690	– .019	+ .616
Currency Outside Banks	137.057	+ .352	+10.645
Member Bank Reserves:			
Required	37.384	+ .547	– 1.553
Excess (Deficiency)	.282	– .229	– .055
Total Reserves Held	37.666	+ .318	– 1.608
Net Borrowed Reserves	.242	+ .466	– .395
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.596	+ 2.671	+18.917

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (3/9/83)	497.8	+ 14.8‡	+ 10.0‡
M2 (February '83)	2,047.8	+ 21.1	+ 12.8
M3 (February '83)	2,428.1	+ 9.8	+ 10.8
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 3/24/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.20%	8.20%	8.25%
* Federal Agencies	8.70	8.85	9.15
* Project Notes—Taxfree (46% Taxable Equivalent)	8.15	8.70	9.81
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.95	9.10	9.50

‡ Finance Company Paper—Prime	
5- 14 days	8.63%
15- 29 days	8.63
30- 59 days	8.63
60- 89 days	8.63
90-179 days	8.63
180-239 days	8.63
240-270 days	8.63

‡* Bankers' Acceptances	
Apr.	8.65%
May	8.65
Jun.	8.65
Jul.	8.65
Aug.	8.70
Sep.	8.60

‡ Industrial Paper–Prime	
30- 89 days	8.63%
90-120 days	8.63

† Federal Funds Effective Rate 8.85%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,108	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,477	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 1.1	0.7	– 5.3
Change in Consumer Prices (new series)*	Feb '83n	– 2.4%	2.4%	1.2%
Change in Producer Prices*	Feb '83	1.2%	– 12.0%	1.2%
Civilian Employment (Thousands of Persons) †	Feb '83	99,063	99,103	99,695
Unemployment as % of Civilian Labor Force †	Feb '83	10.4%	10.4%	8.8%
Personal Income*	Feb '83	$ 2,643	$ 2,640	$ 2,514
Leading Indicators Composite Index (1967=100) †	Jan '83	146.3	141.2	135.1
Industrial Production Index (1967=100) †	Feb '83	137.3	136.9	142.9
Net Change in Consumer Installment Credit †	Jan '83	$ 2.93	$ 2.42	$ 0.42
U.S. Merchandise Trade Balance †	Jan '83	–$ 2.96	–$ 3.20	–$ 4.36
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Feb '83	1,756	1,707	911
New Construction Expenditures*	Jan '83	$ 255.5	$ 234.7	$ 225.1
Total Business Inventories †	Jan '83	$ 501.0	$ 504.3	$ 516.3
Total Business Sales †	Jan '83	$ 340.4	$ 334.3	$ 334.4

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

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adjusted 6.3 million unit annual rate in February, up from 5.6 million units in January and 4.1 million units a year ago. Domestic raw-steel production, a downstream industry of auto production, has now risen for seven consecutive weeks, reaching its highest level in almost a year.

What is more, with housing starts in February reaching the highest level since September 1979, the demand for lumber has jumped. As a result, many sawmills that had been closed for months have begun humming again. Lumber production was 40 per cent above year-ago levels in the latest weekly reporting period.

Defense and high-technology industries in California, New England and the Southeast are benefiting from new orders for military and aerospace hard goods. The outlook for Florida has also brightened in recent months, as a combination of increased housing starts, defense orders and tourism is lifting the overall economy. On the other hand, it will take some time before the rebound will reach America's breadbasket states. And, the plunge in world oil prices, which will speed economic recovery in many parts of the country, will initially affect adversely such energy-producing states as Texas and Oklahoma.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/9/83)	108,477	– 2,839	–24,774
New York City (3/9/83)	29,541	– 1,291	– 3,215
Commercial Paper (3/9/83)	166,984	– 677	– 2,433*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/9/83)	216,504	– 1,784	+16,566
New York City (3/9/83)	59,496	– 685	+ 3,836

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/9/83)	503,113	– 4,689	+25,476
New York City (3/9/83)	116,661	– 3,418	+ 6,988

Financial Markets

	Thursday 3/24/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.80%	– .05	– 4.68
180 Day Bills†	9.00	0.00	– 5.02
Longest Bills†	9.18	– .08	– 4.81
Recent Issues:			
$9^{5}/_{8}$s 3/31/85 (When Issued)	9.80	– .05	
$10^{1}/_{4}$s 3/31/87 (When Issued)	10.18	NA	
$10^{7}/_{8}$s 2/15/93	10.55	– .05	
$10^{3}/_{8}$s 11/15/12	10.60	– .12	
Municipals:			
Bond Buyer–20 Bond Index*	9.15%	– .04	– 3.89
Blue List Total ($ Million)	$1,388	+$ 124	+ $ 542
30-Day Visible Supply ($ Million)	$4,780	+$1,250	+ $2,105
Total	$6,168	+$1,374	+ $2,647
Corporates:			
Moody's Aa Composite (3/23/83)	12.28%	– .07	– 2.96
30-Day Visible Supply ($ Million)	$1,057	–$ 140	– $2,043
Stocks:			
Dow-Jones Averages:			
Industrials	1,145.90	+ 28.16	+ 327.98
Transportation	519.70	+ 13.43	+ 187.38
Utilities	126.29	+ .04	+ 17.72
65 Stocks	453.72	+ 9.91	+ 132.06
Standard and Poor's 500 Stocks	153.37	+ 3.47	+ 41.43
N.Y S.E. Composite Index	88.20	+ 1.83	+ 23.67
N.Y.S.E. Avg. Daily Vol. for Week (000's)	84,870	+14,160	+ 31,134

* 46% Taxable equivalent 16.94%.

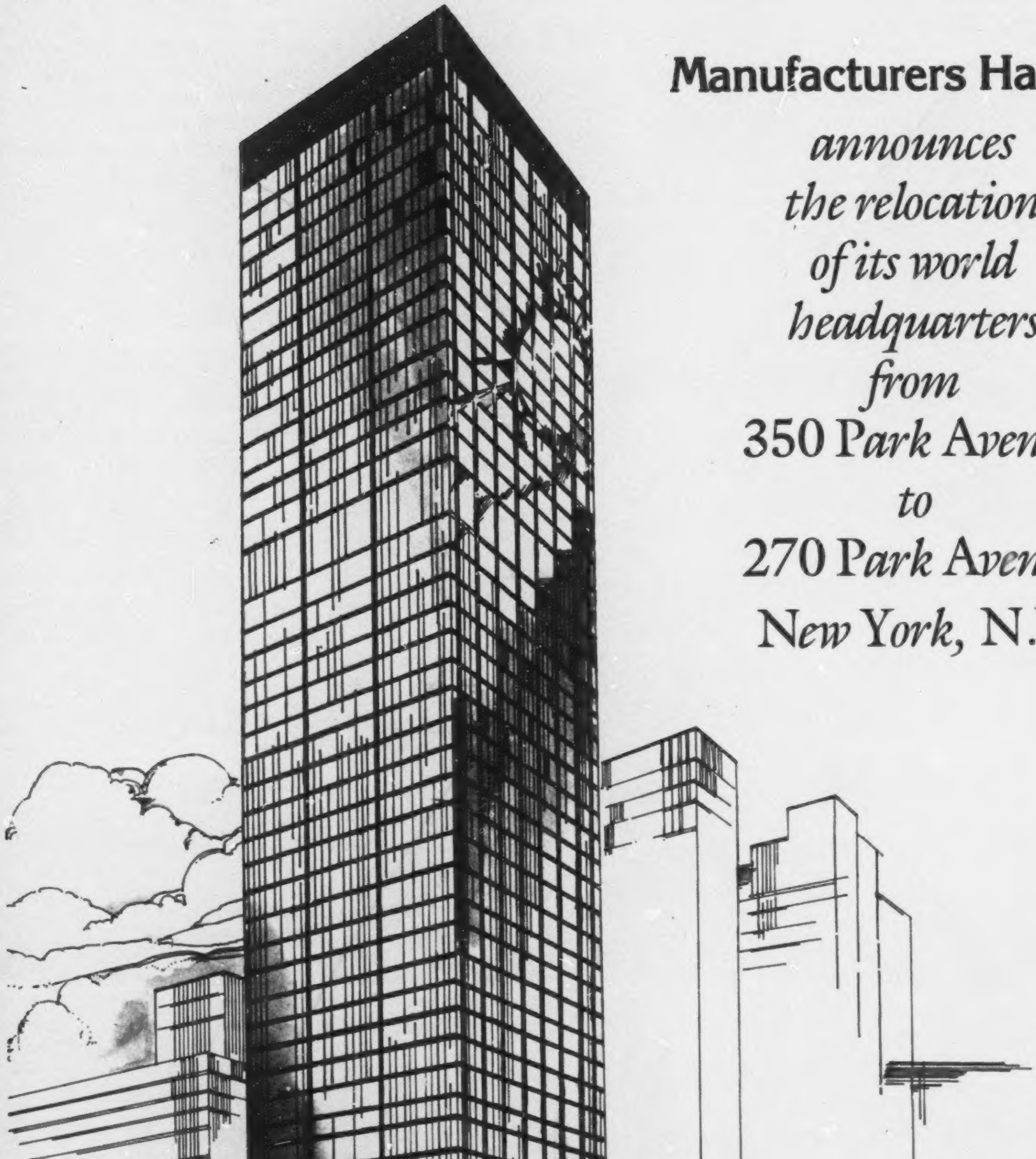
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 3/24/83	Week Ago
Overnight	8.81%	8.50%
1 month	9.38	8.75
3 month	9.44	9.00
6 month	9.63	9.38
1 year	9.75	9.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.70%
Long Term (7 to 15 yrs.)	11.75	11.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/24/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02104	47.53
Canada	.8160	1.2255
Denmark	.1162	8.6050
France	.1383	7.2315
Germany	.4149	2.4100
Italy	.0006942	1440.50
Japan	.004221	236.93
Mexico	.006270	159.50
Netherlands	.3700	2.7025
Switzerland	.4836	2.0680
U.K.	1.4625	.6838



Manufacturers Hanover

announces
the relocation
of its world
headquarters
from
350 P*ark* A*venue*
to
270 P*ark* A*venue*
N*ew* Y*ork*, N.Y.

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, APRIL 4, 1983
VOLUME XX, NUMBER 14

The New Agricultural Programs . . .

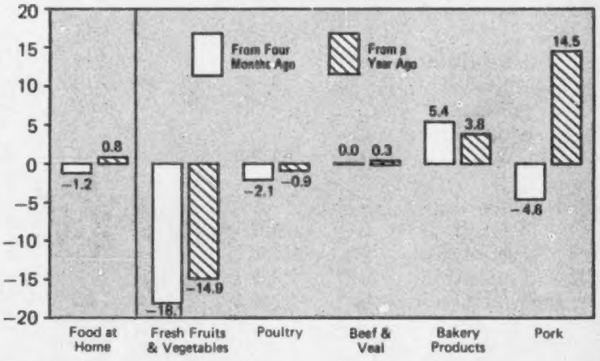
One of the most welcome developments accompanying the current economic recovery is the low rate of inflation. Since August, retail prices have advanced only 0.4 per cent at a seasonally adjusted annual rate—the lowest six-month rate of rise in more than 20 years—and have actually declined by an annual rate of 1.2 per cent in the last three months. The most widely publicized contributor to this descent has been the sharp drop in the cost of energy—a consequence of the falling price of crude oil on world markets. But even more important for most households is the price of food. Since more than one-fifth of consumer budgets is spent on food and beverages, the fact that prices at the nation's supermarkets have actually dropped in the past four months is particularly good news (see chart). During the year ending February, 1983, grocery food prices rose by a scant 0.8 per cent. This is a dramatic improvement over the previous year when prices increased by four per cent, year-over-year, or the year ending in February, 1981, when they shot up by nearly 11 per cent.

But what has been good for the consumer has not been so good for the farmer. Last year, farm incomes were depressed for the third year in a row. Net income—which measures returns to farm operators for labor, management and investment, while taking into account the swings in inventories—fell to about $20.4 billion in 1982, down from $25.1 billion in 1981 and $32.3 billion in 1979. In addition to low commodity prices, other contributors to this dismal situation were a sharp decline in overseas demand, implementation of protectionist policies by many countries, the high value of the U.S. dollar vis-à-vis other major currencies, sluggish domestic demand and rising operating costs. Importantly, in each of the past three years, the cost of operations rose at a faster pace than prices farmers received for their products.

. . . Will Lift Farmers Out Of Depression . . .

However, farmers now have something to look forward to. To alleviate the poor farm income situation and to reduce storage costs for the bulging government-owned or controlled inventory of grains and cotton, the Department of Agriculture announced the largest agricultural program in U.S. history, designed to take cropland out of production. It includes various acreage reduction plans including the well-publicized payment-in-kind (PIK) program, which offers to "pay" farmers in grain and cotton in return for an agreement to plant fewer acres of corn, wheat, rice or cotton. Another program pays farmers in cash to reduce their plantings 20 per cent. The government had hoped that the decline in planting would be offset by more grain coming to the market from inventory—thus keeping prices about the same.

CONSUMER PRICE INDEX: FEBRUARY 1983
FOOD AT HOME AND SELECTED COMPONENTS
(PERCENT CHANGES AT ANNUAL RATES)



But the response to these programs was underestimated and food commodities' prices have already jumped. While the Department of Agriculture originally expected about 23 million acres to be idled under these plans, it now looks as if more than twice that number of acres—or more than one-third of all available acreage for wheat, corn, rice and cotton will go unplanted. (In 1961, when the United States had large surpluses, farmers cut grain acreage by only 12 per cent under government programs.) About 35 per cent of the land traditionally devoted to wheat is expected to lay idle, while 39 per cent of available corn and sorghum acreage, 48 per cent of rice acreage and 44 per cent of cotton acreage will go unseeded. However, if in the near term commodity prices rise to high enough levels, some farmers may drop out and expand production.

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. . . But Are A Mixed Blessing . . .

Because of the unexpectedly huge enrollment in the PIK, the Department of Agriculture now realizes that it will not have sufficient quantities of grain for distribution when the time comes at the end of the growing season. In an attempt to avoid future shortages the government has just announced new measures to buy more grain for the government reserve. But the commodity markets have responded quickly to the expected contraction in grain and cotton supplies. Since these programs were unveiled last December, prices of grains on the futures markets soared. For example, corn prices have risen by more than 30 per cent since yearend 1982. The runup in wheat prices was not as steep—seven per cent for spring wheat, and six per cent for winter wheat. Cotton prices rose by almost 14 per cent.

All this bodes well for grain and cotton farmers. Their gross incomes this year will be boosted by the ever-increasing government subsidies while their production costs will drop substantially. However, this will occur at the expense—at least in the short run—of not only many agriculture-related industries, but also such other farmers as livestock and poultry producers. Since corn represents a large part of the cost of raising animals for slaughter, ranchers, who have just begun expanding their hog, fed-cattle and poultry inventories may, once again, tighten supplies in an attempt to raise prices and keep their balance sheets in the black.

This probably will not affect consumer prices for several months. In fact, in the near future continued food price moderation is likely,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/23/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	145.252	+ 1.188	+10.856
Loans to Depository Inst.	.641	– .253	– 1.011
Float	2.094	+ .227	– .014
Total Reserve Bank Credit	157.040	+ 1.365	+ 9.771
Treasury Deposits with Federal Reserve Banks	3.387	– .303	+ .058
Currency Outside Banks	138.314	+ 1.257	+11.481
Member Bank Reserves:			
Required	37.898	+ .514	– .963
Excess (Deficiency)	.297	– .104	+ .028
Total Reserves Held	38.195	+ .410	– .935
Net Free Reserves	.061	+ .184	+ .960
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.965	– 1.631	+16.415

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (3/16/83)	497.1	+ 15.5‡	+ 10.5‡
M2 (February '83)	2,048.6	+ 21.3	+ 12.8
M3 (February '83)	2,429.2	+ 10.0	+ 10.8
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/1/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills (3/31/83)	8.35%	8.40%	8.40%
* Federal Agencies (3/31/83)	8.85	9.00	9.35
* Project Notes—Taxfree (46% Taxable Equivalent)	8.33	9.63	10.56
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.05	9.20	9.50

‡Finance Company Paper—Prime	
5- 14 days	9.00%
15- 29 days	8.75
30- 59 days	8.75
60- 89 days	8.75
90-179 days	8.75
180-239 days	8.75
240-270 days	8.75

‡* Bankers' Acceptances	
May	8.90%
Jun.	8.90
Jul.	8.90
Aug.	8.90
Sep.	8.85
Oct.	8.85

‡Industrial Paper—Prime	
30- 89 days	9.25%
90-120 days	9.25

†Federal Funds Effective Rate 9.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,108	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,477	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 1.1	0.7	– 5.3
Change in Consumer Prices (new series)*	Feb '83	– 2.4%	2.4%	1.2%
Change in Producer Prices*	Feb '83	1.2%	– 12.0%	1.2%
Civilian Employment (Thousands of Persons)†	Mar '83n	99,103	99,063	99,597
Unemployment as % of Civilian Labor Force†	Mar '83n	10.3%	10.4%	9.0%
Personal Income*	Feb '83	$ 2,643	$ 2,640	$ 2,514
Leading Indicators Composite Index (1967=100)†	Feb '83n	148.3	146.2	135.7
Industrial Production Index (1967=100) †	Feb '83	137.3	136.9	142.9
Net Change in Consumer Installment Credit†	Jan '83	$ 2.93	$ 2.42	$ 0.42
U.S. Merchandise Trade Balance †	Feb '83n	–$ 3.58	–$ 3.57	–$ 1.79
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Feb '83	1,756	1,707	911
New Construction Expenditures*	Feb '83n	$ 250.9	$ 256.1	$ 222.6
Total Business Inventories †	Jan '83	$ 501.0	$ 504.3	$ 516.3
Total Business Sales †	Jan '83	$ 340.4	$ 334.3	$ 334.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

especially for pork and poultry. Beef prices may rise seasonally during the spring, but they are expected to level off or possibly decline in the summer. Since grain prices represent only about 11½ per cent of the cost of cereal and bakery products, the effect of higher grain prices on retail prices will be small.

. . . For Allied Industries

Although the overwhelming participation in the government programs is expected to eventually pull the rural economy toward recovery—thus benefiting the downstream industries in the longer run—this year, however, the agriculture-related industries will bear the brunt of reduced farm activity. Farmers will be working less land and therefore they will be using less fuel, fertilizer, pesticides and labor, while they will be able to once again postpone purchases of farm machinery.

Manufacturers had hoped that the decline in the cost of borrowed money, low level of inflation and the fact that many farmers have pushed their equipment to the limit would finally boost sales this year. Now they will have to wait another year. Fertilizer use is expected to decline even steeper than last year's nine per cent drop. Pesticide consumption may decline by more than 15 per cent primarily due to the decline in corn planting, which has traditionally accounted for more than half of all pesticide use. Last year's consumption decreased by almost five per cent—the first decline in more than a decade.

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/16/83)	106,399	− 2,072	−25,974
New York City (3/16/83)	28,525	− 1,016	− 4,458
Commercial Paper (3/16/83)	167,056	+ 72	− 3,843*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/16/83)	217,416	+ 912	+16,583
New York City (3/16/83)	59,626	+ 130	+ 3,623

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/16/83)	503,056	− 57	+28,193
New York City (3/16/83)	117,280	+ 619	+ 8,620

Financial Markets

	Thursday 3/31/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.92%	+ .12	− 4.82
180-Day Bills†	9.18	+ .18	− 4.95
Longest Bills†	9.30	+ .12	− 4.75
Recent Issues:			
$9\frac{5}{8}$s 3/31/85	9.87	+ .07	
$10\frac{1}{4}$s 3/31/87	10.18	0.00	
$10\frac{7}{8}$s 2/15/93	10.60	+ .05	
$10\frac{3}{8}$s 11/15/12	10.67	+ .07	
Municipals:			
Bond Buyer—20 Bond Index* (3/30/83)	9.38%	+ .23	− 3.75
Blue List Total ($ Million)	$1,323	− $ 65	+ $ 539
30-Day Visible Supply ($ Million)	$4,558	− $222	+ $2,623
Total	$5,881	− $287	+ $3,162
Corporates:			
Moody's Aa Composite	12.33%	+ .05	− 2.79
30-Day Visible Supply ($ Million)	$1,172	+ $115	− $1,784
Stocks:			
Dow-Jones Averages:			
Industrials	1,130.03	− 15.87	+ 291.46
Transportation	507.39	− 12.31	+ 167.98
Utilities	124.58	− 1.71	+ 14.38
65 Stocks	446.07	− 7.65	+ 117.21
Standard and Poor's 500 Stocks	152.96	− .41	+ 37.84
N.Y.S.E. Composite Index	88.03	− .17	+ 21.81
N.Y.S.E. Avg. Daily Vol. for Week (000's)	75,740	− 9,130	+ 27,416

* 46% Taxable equivalent 17.37%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/1/83	Week Ago
Overnight	9.88%	8.81%
1 month	9.50	9.38
3 month	9.69	9.44
6 month	9.88	9.63
1 year	10.06	9.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.65%
Long Term (7 to 15 yrs.)	11.75	11.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/1/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02070	48.30
Canada	.8078	1.2380
Denmark	.1159	8.6250
France	.1375	7.2750
Germany	.4117	2.4290
Italy	.0006918	1445.50
Japan	.004174	239.60
Mexico	.006410	156.00
Netherlands	.3659	2.7330
Switzerland	.4805	2.0810
U.K.	1.4800	.6757

If Manufacturers Hanover were your company's stock transfer agent, you could take a vacation day when 10% dividend withholding starts July 1.

The fact is, you could relax right now. Because we're ready for 10% dividend withholding. We've been ready for some time. And while preparing for this major change wasn't all that simple, it was still a task handled without difficulty by Manufacturers Hanover. And TRANSIFAC.*

You see, TRANSIFAC is our computer system that's especially designed for stock transfer work. The system that can easily handle the tremendous task coming on July 1 and every quarter thereafter. The system that, among other things, offers unparalleled accuracy thanks to "key verification."

TRANSIFAC's state of readiness and our commitment to state-of-the-art is something you would expect from the stock transfer agent that's the best in the business. In people. In technology. In service. In innovation.

Is your current stock transfer agent ready as of this minute? Have you started to solicit stockholder exemption certificates? If not, learn how our expertise can make July 1 worry-free. And the start of a nice long weekend. Just contact Kevin Kelly, Manufacturers Hanover, 600 Fifth Avenue, N.Y., N.Y. 10020. (212) 957-0986.

MANUFACTURERS HANOVER

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4/13/83

The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 11, 1983
VOLUME XX, NUMBER 15

Inflation Has Worsened . . .

It is well known that inflation for the nation as a whole has moderated dramatically. The consumer price index rose only 3.5 per cent in the 12 months ending in February compared with a 7.7 per cent rise during the previous 12 months. In many areas of the country, inflation has slowed even more. Prices edged up only 0.5 per cent over the year in the San Francisco-Oakland and Los Angeles-Long Beach areas and even declined 0.1 per cent in Minnesota's Twin Cities area.

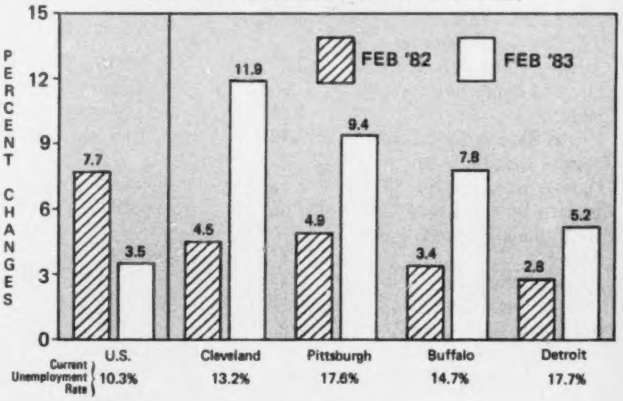
But what is less well known is that in a number of cities inflation has worsened significantly. In Cleveland, Ohio, for example, the consumer price index rose 11.9 per cent in the 12 months ending February, 1983, compared with 4.5 per cent during the 12 months ending February, 1982. In these same two periods prices in Pittsburgh, Pennsylvania rose 9.4 per cent versus 4.9 per cent. Rates of inflation well above the national average and much higher than 12 months earlier were also reported by Detroit, Michigan and Buffalo, New York.

. . . Where People Can Least Afford It

Interestingly, all of these cities are located in the nation's industrial heartland. Here the regional slump preceded the national recession of 1981-82 causing particularly severe damage. Nor have these cities' economies improved yet. In fact, during the past year the number of unemployed increased in all of them. Currently the jobless rate is close to 18 per cent in Detroit and Pittsburgh, 14.7 per cent in Buffalo and 13.2 per cent in Cleveland (see chart).

Not only has the rate of price inflation accelerated in these depressed areas, but in several of them the general level of prices now exceeds the national average. To buy $100 worth of goods and services consumed by the average U.S. household, a Cleveland consumer must spend $109, and a Pittsburgh shopper $104. However, households in Detroit spend a bit less than the average U.S. household to purchase the same basket of goods and services while Buffalo's consumers may buy it for "only" $96–$4 below the U.S. average.

INFLATION TRENDS:
U.S. AND SELECTED CITIES
(PERCENT CHANGES FROM A YEAR AGO)



Consumers Have Many Reasons . . .

The fact that inflation has receded in most areas and interest rates on consumer loans have begun to fall has caused attention to be turned to people's buying habits—as well it should. Representing nearly two-thirds of the gross national product, consumer spending is the largest component of the nation's economy. But lately, consumers seem to be reluctant to open their wallets. After rising briskly in the final quarter of 1982, retail sales softened during first-quarter 1983, posting month-to-month declines in January and February, and not doing all that much better in March, if purchases of domestic cars are any guide.

Nevertheless, businessmen are becoming very optimistic about the vigor of the current recovery. The latest poll of purchasing managers of 250 major industrial companies finds that new orders in March were the highest since May, 1977, indicating that recent increases in production will continue.

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Already, more than half of the major industries have stepped up production since the beginning of the year in anticipation of rising demand for their products. Even many apparel buyers are now ordering merchandise for the fall season. Last year they waited until the last minute, ordering only small quantities at a time. But despite this optimism, uncertainty remains as to when will consumers finally loosen their purse strings.

. . . To Remain Wary About Spending

If you believe the surveys, such a day may not be long in coming. According to the Conference Board's latest survey, consumer spirits soared in March, posting the largest gain in nine years. But this is not always a reliable indicator of imminent changes in spending levels. More important is that nearly 70 per cent of those surveyed do not see the employment situation getting any better in the next six months and less than one-fourth think that their incomes will rise during this time period.

This is critical, for a direct determinant of spending habits is personal income. At the moment it is not very encouraging. Wages and salaries rose by a scant 3.1 per cent in the past year—posting the third lowest year-over-year advance in more than 20 years. After adjusting for inflation, personal incomes were no higher in February, 1983 than in August, 1981. In addition, interest income—an important

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/30/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	143.375	− 1.877	+ 9.924
Loans to Depository Inst.	.896	+ .255	− .760
Float	1.973	− .144	− .086
Total Reserve Bank Credit	155.491	− 1.572	+ 9.084
Treasury Deposits with Federal Reserve Banks	2.534	− .853	− .563
Currency Outside Banks	137.461	− .847	+11.473
Member Bank Reserves:			
Required	37.837	− .061	− .987
Excess (Deficiency)	.448	+ .128	− .018
Total Reserves Held	38.285	+ .067	− 1.005
Net Borrowed Reserves	.081	+ .165	− .585
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.450	− .515	+16.625
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1	497.1	+ 15.2‡	+ 11.0‡
M2 (February '83)	2,048.3	+ 21.2	+ 12.8
M3 (February '83)	2,428.1	+ 9.8	+ 10.8
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/8/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.15%	8.25%	8.30%
* Federal Agencies	8.90	9.00	9.15
* Project Notes—Taxfree (46% Taxable Equivalent)	8.33	8.89	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.90	8.95	9.40

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.00%	May	8.65%
15- 29 days	8.50	Jun.	8.60
30- 59 days	8.63	Jul.	8.60
60- 89 days	8.63	Aug.	8.60
90-179 days	8.50	Sep.	8.55
180-239 days	8.50	Oct.	8.50
240-270 days	8.50		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	8.75%		
90-120 days	8.75	Effective Rate	8.75%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,108	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,477	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	− 1.1	0.7	− 5.3
Change in Consumer Prices (new series)*	Feb '83	− 2.4%	2.4%	1.2%
Change in Producer Prices*	Feb '83	1.2%	− 12.0%	1.2%
Civilian Employment (Thousands of Persons)†	Mar '83	99,103	99,063	99,597
Unemployment as % of Civilian Labor Force†	Mar '83	10.3%	10.4%	9.0%
Personal Income*	Feb '83	$ 2,643	$ 2,640	$ 2,514
Leading Indicators Composite Index (1967=100)†	Feb '83	148.3	146.2	135.7
Industrial Production Index (1967=100) †	Feb '83	137.3	136.9	142.9
Net Change in Consumer Installment Credit†	Jan '83	$ 2.93	$ 2.42	$ 0.42
U.S. Merchandise Trade Balance †	Feb '83	−$ 3.58	−$ 3.57	−$ 1.79
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Feb '83	1,756	1,707	911
New Construction Expenditures*	Feb '83	$ 250.9	$ 256.1	$ 222.6
Total Business Inventories †	Jan '83	$ 501.0	$ 504.3	$ 516.3
Total Business Sales †	Jan '83	$ 340.4	$ 334.3	$ 334.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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contributor to personal income, since it is now equal to one-quarter of wages and salaries, compared with less than one-sixth just five years ago—has remained flat over the last eight months.

On the other hand, the consumer household balance sheet position did improve dramatically between the second and fourth quarters of 1982. As a result of stock and bond market rallies which began last summer, people's financial assets grew ten times as fast as did liabilities—which include home mortgages and installment credit. But while this development may be encouraging to some, it should be viewed with caution. For one thing, improvement in financial net worth does not necessarily translate into higher levels of spending. Second, because more than half of the gain in financial assets is due to the appreciation in bond and stock prices, a large portion of it has not yet been realized. Therefore, most of these gains are only on paper.

Since people have been postponing purchases for about four years now, the question remains: what will get them to go shopping again? From here, it would seem to be basic needs. In the case of cars, the average age of automobiles now on the road exceeds seven years, causing many to push their cars to the limit. Others need more living space, clothes or household furnishings. The longer they resist, the slower the recovery. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/23/83)	107,372	+ 972	–26,817
New York City (3/23/83)	28,398	– 127	– 5,506
Commercial Paper (3/23/83)	168,120	+ 1,064	– 2,252*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/23/83)	216,636	– 782	+15,882
New York City (3/23/83)	59,120	– 506	+ 3,748

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/23/83)	501,550	– 1,466	+26,559
New York City (3/23/83)	115,763	– 1,517	+ 7,069

Financial Markets

	Friday 4/8/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.60%	– .32	– 4.91
180-Day Bills†	8.80	– .38	– 5.19
Longest Bills†	9.04	– .26	– 4.97
Recent Issues:			
$9\frac{5}{8}$s 3/31/85	9.67	– .20	
$10\frac{1}{4}$s 3/31/87	10.05	– .13	
$10\frac{7}{8}$s 2/15/93	10.50	– .10	
$10\frac{3}{8}$s 11/15/12	10.55	– .12	
Municipals:			
Bond Buyer–20 Bond Index* (4/7/83)	9.23%	– .15	– 3.76
Blue List Total ($ Million)	$1,265	–$ 58	+ $ 540
30-Day Visible Supply ($ Million)	$3,596	–$ 962	+ $1,731
Total	$4,861	–$1,020	+ $2,271
Corporates:			
Moody's Aa Composite (4/7/83)	12.14%	– .19	– 3.01
30-Day Visible Supply ($ Million)	$ 745	–$ 427	– $2,350
Stocks:			
Dow-Jones Averages:			
Industrials	1,124.71	– 5.32	+ 281.77
Transportation	509.37	+ 1.98	+ 160.53
Utilities	124.31	– .27	+ 13.79
65 Stocks	445.30	– .77	+ 112.63
Standard and Poor's 500 Stocks	152.85	– .11	+ .36.63
N.Y.S.E. Composite Index	87.87	– .16	+ 20.98
N.Y.S.E. Avg. Daily Vol. for Week (000's)	71,476	– 4,264	+ 18,784

* 46% Taxable equivalent 17.09%.

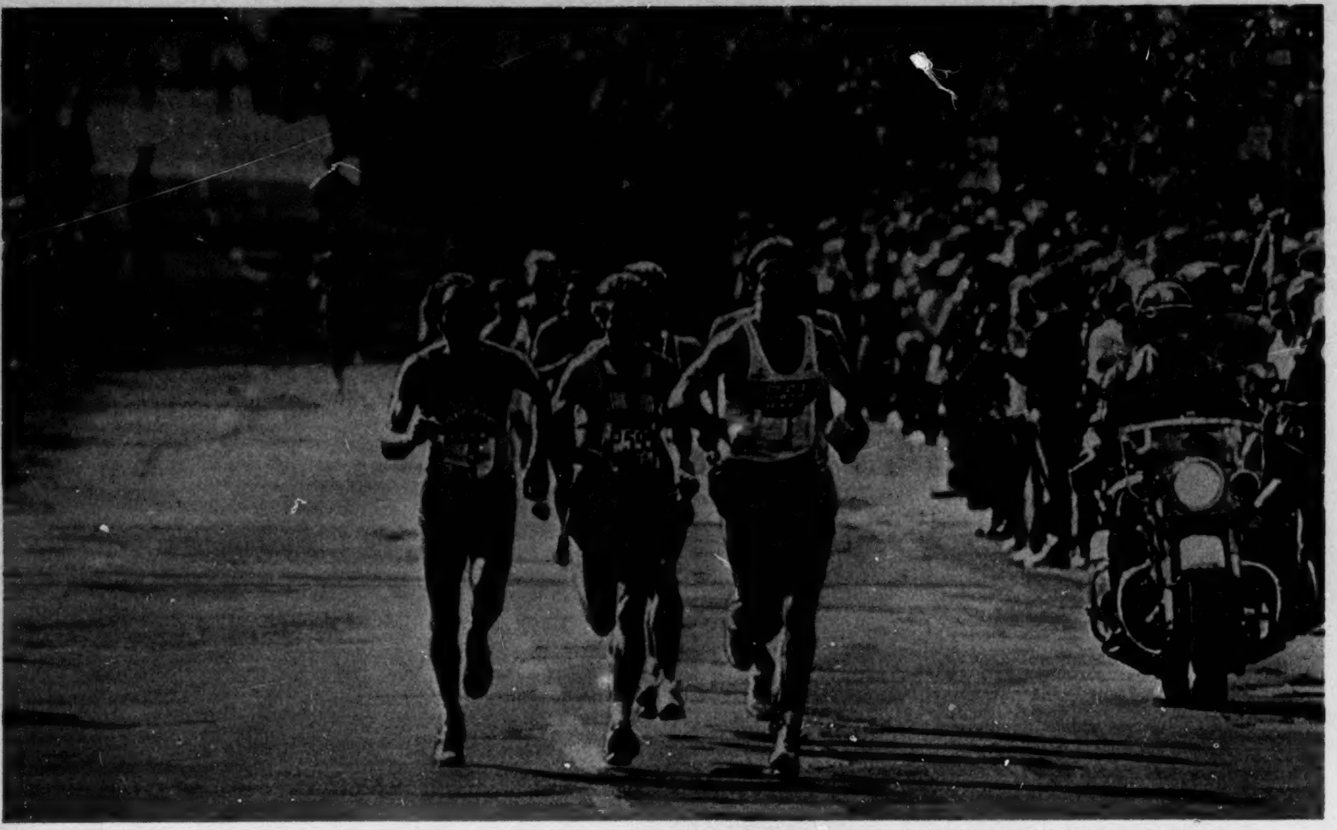
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 4/8/83	Week Ago
Overnight	9.19%	9.88%
1 month	9.31	9.50
3 month	9.44	9.69
6 month	9.50	9.88
1 year	9.69	10.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.65%
Long Term (7 to 15 yrs.)	11.75	11.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/8/83)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02074	48.22
Canada	.8098	1.2349
Denmark	.1164	8.5910
France	.1377	7.2625
Germany	.4125	2.4245
Italy	.0006925	1444.00
Japan	.004181	239.18
Mexico	.006472	154.50
Netherlands	.3660	2.7325
Switzerland	.4856	2.0595
U.K.	1.5047	.6646



The 1982 New York City Marathon, co-sponsored by Manufacturers Hanover

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Manufacturers Hanover succeeds.

Consistency, quality, loyalty.

Three qualities that clearly show themselves in Alberto Salazar's victory in the 1982 New York Marathon.

Consistency of winning, not once, or twice, but three consecutive times. Winning in spite of increasingly strong competition each year.

Quality of performance to break away from the pack and be one of the best.

Loyalty of spirit to commit to endless training and mental preparation.

These same core values, witnessed by millions of our neighbors as they experienced this extraordinary event, have enabled Manufacturers Hanover to emerge as a $64 billion diversified financial services organization, worldwide.
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4/19/83

The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 18, 1983
VOLUME XX, NUMBER 16

For Labor . . .

While declining energy and food prices have been the most publicized contributors to bringing down the rate of inflation over the past year, there is another less frequently mentioned development which has also played an important role. This is the drop in the "underlying" or "core" rate of inflation. After peaking at 9.9 per cent in 1981, year-over-year, this component—the annual rise in labor and capital costs per unit of output—slowed to eight per cent by the end of last year, reversing a 15-year upward spiral.

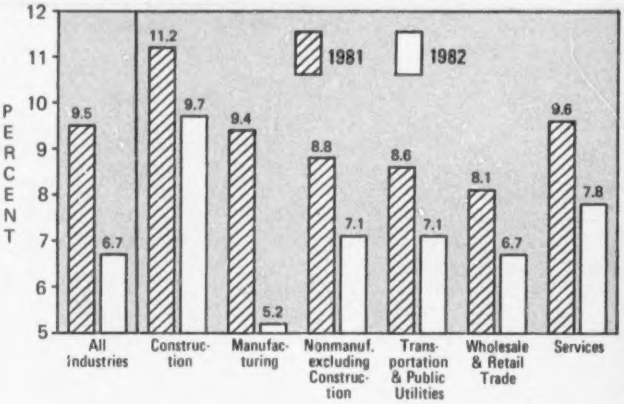
Lower capital costs contributed about one-third to this slowdown—reflecting lower interest rates, tax incentives for investment and the runup in equities prices. However, the moderation in wage increases, combined with last year's rise in private sector productivity, was by far the largest contributor. Compensation per hour (including employers' payments for social insurance and benefit plans) rose by 7.2 per cent in 1982, posting the smallest rise since 1977. A continuation in the decline in the core rate of inflation will be crucial in holding down prices as the current recovery picks up steam.

. . . It Will Be Another Year . . .

One of the more important reasons for this moderation in wage increases was the sharp reduction in gains received by organized labor. Their demands last year were tempered by the depressed state of the economy. In an effort to preserve jobs, labor accepted much lower pay raises in some industries while in others they agreed to wage freezes—and even pay cuts. By the end of 1982, this trend spread to virtually all industries, including automobiles, food processing, textiles, trucking and airlines. As a result, major collective bargaining agreements provided the lowest wage and salary adjustments since the Bureau of Labor Statistics started keeping records in 1967.

Averaging only 3.8 per cent in the first contract year, these wage increases compared with nearly eight per cent when the same parties negotiated previously, two to three years ago. What is more, about a third of the 3.3 million workers covered by last year's settlements received no specified increases during the life of their contracts. However, nearly all are scheduled to receive some cost-of-living adjustments.

MAJOR COLLECTIVE BARGAINING SETTLEMENTS
TOTAL EFFECTIVE WAGE ADJUSTMENTS BY INDUSTRY



Effective wage adjustments (which include not only settlements reached during a period, but also deferred increases negotiated earlier and cost-of-living adjustments) provided on average a 6.7 per cent increase in pay in 1982 (see chart)—the lowest in ten years. At 9.7 per cent, wage gains were highest in the construction industry, despite the fact that one out of five construction workers is currently out of a job. Although this was down from an 11.2 per cent increase the year before, it was still nearly 50 per cent above the all-industry average. Manufacturing workers, with only 5.2 per cent effective wage raises last year, received the smallest gains.

. . . Of Settling For Less

But even with the recovery under way, many workers may not see their paychecks increase much in 1983. With the inflation rate at its lowest level in more than a decade, joblessness at nearly a 40-year high and many industries still deeply depressed, labor is again dealing from a position of weakness at the bargaining table. As a result, this is likely to be another year of modest pay increases for blue and white collar workers alike. It will be a particularly

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important year for organized labor since 3.6 million workers are under major contracts which are due to expire or be reopened.

For example, the steel companies are in desperate need to reduce costs. The industry's financial condition in the first quarter was still depressed despite a modest improvement. The steel workers' three-year contract with the Big Eight steel companies was due to expire on August 1, 1983, but labor and management began negotiations almost a year early to cut costs and thus try to improve the industry's profitability. An agreement was finally reached last month calling for numerous wage and benefit concessions. Workers' pay was cut by an average of $1.31 an hour—of which only $1.25 will be restored over the next three years—and cost-of-living adjustments will be foregone until mid-1984. Furthermore, vacations will be shortened by one week, while vacation bonuses and extended vacations—up to 13 weeks every five years—eliminated. What the unions did win, however, was a commitment by the manufacturers to reinvest the savings derived from these concessions in more modern steelmaking facilities, with the hope of creating more jobs in the future.

Steel workers employed by the major can companies

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/6/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	145.311	+ 1.936	+11.651
Loans to Depository Inst.	1.767	+ .871	+ .287
Float	1.747	− .231	− 1.221
Total Reserve Bank Credit	157.955	+ 2.456	+10.547
Treasury Deposits with Federal Reserve Banks	3.861	+ 1.327	− .077
Currency Outside Banks	138.556	+ 1.094	+11.657
Member Bank Reserves:			
Required	37.317	− .520	− .846
Excess (Deficiency)	.774	+ .320	+ .502
Total Reserves Held	38.091	− .200	− .344
Net Borrowed Reserves	.585	+ .510	− .178
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.114	+ 1.664	+18.282
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1	499.4	+ 15.9‡	+ 10.7‡
M2 (March '83)	2,066.1	+ 21.8	+ 13.0
M3 (March '83)	2,443.4	+ 11.1	+ 10.5
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 4/15/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.80%	7.90%	8.00%
* Federal Agencies	8.75	8.85	8.90
* Project Notes—Taxfree (46% Taxable Equivalent)	8.24	8.52	9.17
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.63	8.70	9.30

‡Finance Company Paper—Prime	
5- 14 days	8.63%
15- 29 days	8.63
30- 59 days	8.50
60- 89 days	8.50
90-179 days	8.50
180-239 days	8.50
240-270 days	8.50

‡* Bankers' Acceptances	
May	8.45%
Jun.	8.45
Jul.	8.45
Aug.	8.45
Sep.	8.45
Oct.	8.35

‡Industrial Paper—Prime	
30- 89 days	8.50%
90-120 days	8.45

†Federal Funds	
Effective Rate	8.80%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,108	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,477	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	− 1.1	0.7	− 5.3
Change in Consumer Prices (new series)*	Feb '83	− 2.4%	2.4%	1.2%
Change in Producer Prices*	Mar '83n	− 1.2%	1.2%	− 3.6%
Civilian Employment (Thousands of Persons)†	Mar '83	99,103	99,063	99,597
Unemployment as % of Civilian Labor Force†	Mar '83	10.3%	10.4%	9.0%
Personal Income*	Feb '83	$ 2,643	$ 2,640	$ 2,514
Leading Indicators Composite Index (1967=100)†	Feb '83	148.3	146.2	135.7
Industrial Production Index (1967=100) †	Mar '83n	139.1	137.6	141.7
Net Change in Consumer Installment Credit†	Feb '83n	$ 1.74	$ 2.93	$ 0.17
U.S. Merchandise Trade Balance †	Feb '83	−$ 3.58	−$ 3.57	−$ 1.79
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Feb '83	1,756	1,707	911
New Construction Expenditures*	Feb '83	$ 250.9	$ 256.1	$ 222.6
Total Business Inventories †	Feb '83n	$ 508.1	$ 507.6	$ 513.9
Total Business Sales †	Feb '83n	$ 339.1	$ 343.7	$ 340.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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fared better than those working in steel mills. They will keep their current wages, but will not receive any wage increases until 1986. They will also retain quarterly cost-of-living adjustments. Contracts expiring in the construction industry always involve large numbers of workers each year, but more workers will be affected in 1983 than during any other year on record. However, continued weakness in the construction industry is likely to limit the bargaining ability of the trade unions. Unemployment in the industry is currently above 20 per cent as more than 830,000 workers lost their jobs in the past three years. But while residential construction has picked up dramatically—housing starts are now running double the rate of last year—nonresidential investment for structures has stagnated as many companies continue to postpone capital spending projects while the office building boom has come to an end.

In sum, wages will continue to rise more slowly in 1983. Many ailing industries will ask for concessions in order to survive until business improves again. Labor will probably agree, in view of the bleak employment situation and the need to preserve jobs. Thus, the rate of inflation will continue low—trends in money growth notwithstanding.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/30/83)	107,072	– 300	–26,412
New York City (3/30/83)	28,382	– 16	– 4,486
Commercial Paper (3/30/83)	167,672	– 448	+ 1,145*

*Series redefined. Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/30/83)	216,513	– 137	+12,902
New York City (3/30/83)	59,295	+ 175	+ 2,735

	Total Loans Gross Adjusted: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/30/83)	503,003	+ 1,443	+22,826
New York City (3/30/83)	117,010	+ 1,247	+ 5,638

Financial Markets

	Friday 4/15/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.37%	– .23	– 4.98
180-Day Bills†	8.63	– .17	– 5.35
Longest Bills†	8.87	– .17	– 5.26
Recent Issues:			
$9\frac{5}{8}$s 3/31/85	9.45	– .22	
$10\frac{1}{4}$s 3/31/87	9.83	– .22	
$10\frac{7}{8}$s 2/15/93	10.28	– .22	
$10\frac{3}{8}$s 11/15/12	10.34	– .21	
Municipals:			
Bond Buyer–20 Bond Index* (4/14/83)	9.04%	– .19	– 3.50
Blue List Total ($ Million)	$1,111	– $154	+ $ 403
30-Day Visible Supply ($ Million)	$3,336	– $260	+ $1,304
Total	$4,447	– $414	+ $1,707
Corporates:			
Moody's Aa Composite (4/14/83)	11.99%	– .15	– 2.90
30-Day Visible Supply ($ Million)	$ 727	– $ 18	– $1,121
Stocks:			
Dow-Jones Averages:			
Industrials	1,171.25	+ 46.54	+ 327.83
Transportation	529.94	+ 20.57	+ 183.37
Utilities	126.06	+ 1.75	+ 13.79
65 Stocks	462.01	+ 16.71	+ 129.04
Standard and Poor's 500 Stocks	158.75	+ 5.90	+ 41.94
N.Y.S.E. Composite Index	91.18	+ 3.31	+ 23.92
N.Y.S.E. Avg. Daily Vol. for Week (000's)	88,378	+16,902	+ 39,940

* 46% Taxable equivalent 16.74%.

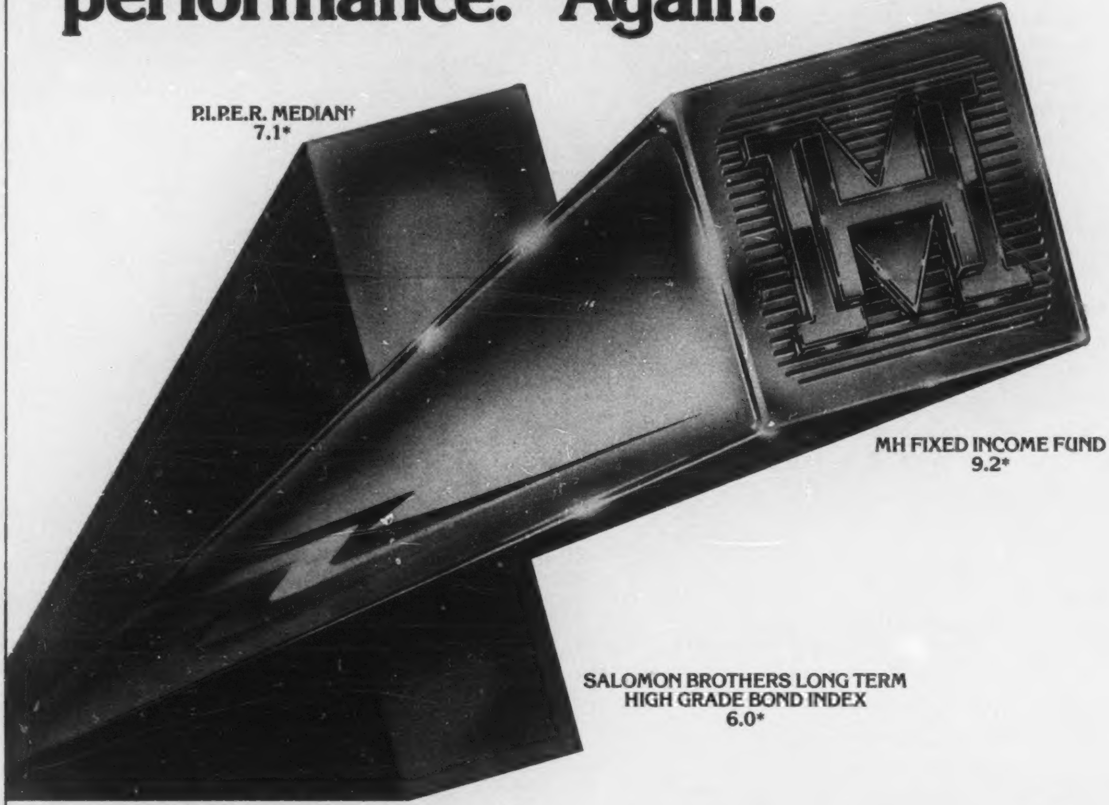
† Bond equivalent.

International Rates

	Friday 4/15/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.50%	9.19%
1 month	8.75	9.31
3 month	8.75	9.44
6 month	9.06	9.50
1 year	9.38	9.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.55%	11.65%
Long Term (7 to 15 yrs.)	11.65	11.75

FOREIGN EXCHANGE SPOT RATES **New York Opening (4/15/83)**	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02060	48.55
Canada	.8114	1.2325
Denmark	.1158	8.6375
France	.1369	7.3035
Germany	.4105	2.4358
Italy	.0006894	1450.50
Japan	.004207	237.68
Mexico	.006515	153.50
Netherlands	.3643	2.7447
Switzerland	.4891	2.0445
U.K.	1.5413	.6488

The Manufacturers Hanover track record in Fixed Income Management spells "performance." Again.



For the period 1973-1982, the MH Fixed Income Fund delivered far greater returns than the Salomon Bros. Index and the P.I.P.E.R. Median.

The reason: The Manufacturers Hanover approach to investment management. You see, we believe in *active* management.

This approach allows us to choose from a variety of innovative products to take advantage of prevailing market conditions while keeping a client's investment objectives firmly in mind.

For example, Manufacturers Hanover went beyond the concept of bond immunization to that of contingent immunization. This allows our portfolio managers to actively trade bonds, as long as the overall rate of return remains above a predetermined "floor." If the return hits the "floor," the portfolio is immunized to lock in the original targeted yield.

While contingent immunization does not guarantee the return, long term simulation, historic analyses and Manufacturers Hanover's actual experience indicate a likelihood of maintaining the floor with a high degree of probability.

It is this experience, combined with our investment philosophy, that has enabled us to outperform the averages. Just look at our ten year performance.

To learn how the Manufacturers Hanover active approach to pension fund management can affect your plan, contact William C. Petty, III, Vice President, at (212) 957-0760. Or write to him at the address below.

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*These numbers are annual time-weighted rates of return for the ten year period ending December 31, 1982.

†Pension and Investments Performance Evaluation Report–Pooled Fixed Income Funds of Banks and Insurance Companies

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4/25/83

The Manufacturers Hanover Financial Digest

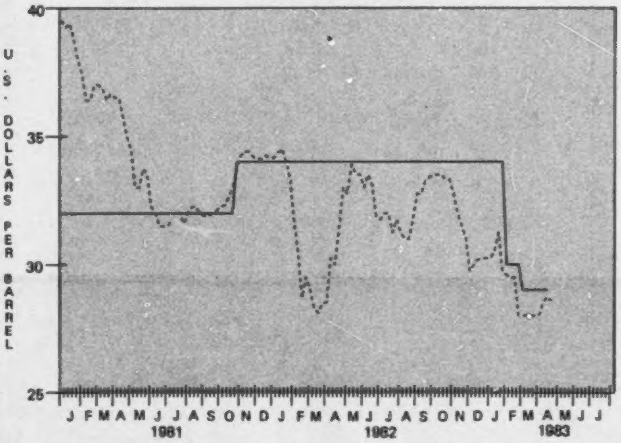
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 25, 1983
VOLUME XX, Number 17

The Recent Firming Of Oil Prices . . .

Since March 14, when the OPEC producers dropped their contract prices for crude oil by an average of $5 per barrel, the press has moved oil price developments to the back pages. Thus, barely noticed, spot oil prices—an indicator of the perceived supply/demand balance on world markets—have begun inching up (see chart), bumping up against the contract prices for some grades of oil and even surpassing them for other grades. Oil companies have included these increases in their prices, raising wholesale prices for most products, including motor gasoline, home heating oil and residual oil. However, this uptick does not appear to signal the beginning of another upward spiral in retail energy prices—at least not in the near term.

CRUDE OIL: ARABIAN LIGHT OFFICIAL PRICE (LINE)
VS. SPOT PRICE (DOT)



The rise in spot prices occurred because of the reported discipline by the OPEC nations in adhering to their production quotas, combined with the expectations of stepped-up final demand resulting from improving economic conditions in the major industrial nations. But while production cutbacks will, in fact, tighten supplies somewhat later on this year, demand for petroleum products is expected to fall once again in 1983, as consumers and industry alike continue their conservation efforts begun in recent years.

PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled per Auto	÷	Average Number of Gallons Consumed per Auto	=	Average Miles Traveled per Gallon
1973	9,992		763		13.1
1978	10,046		715		14.1
1979	9,485		664		14.3
1980	9,135		603		15.1
1981	9,026		581		15.5
1982(e)	9,047		570		15.9

Sources: Federal Highway Administration; MHT estimates

. . . Will Not Fuel Inflation . . .

According to recent reports, the OPEC producers have been adhering to their commitments to limit production. Thanks to sharply curtailed output by Saudi Arabia and the other Persian Gulf states, OPEC's exports were running at an estimated 15½ million barrels per day (mbd) in the first quarter—well below the imposed 17½ mbd ceiling—and are probably even lower now.

However, the consuming countries drew down inventories by 4½ million barrels daily during 1983's first quarter. That more than made up for the decline in production. But it seems that the oil companies may not be able to sell much more from inventory and hold off much longer in buying crude oil. Therefore, inventory liquidation is expected to slow soon and demand for OPEC oil may soon rise to the 17½ mbd ceiling.

Although the pace of business has begun to pick up, worldwide petroleum consumption continues to decline. The International Energy Agency reports that demand by the major industrialized countries fell to 32.8 mbd during 1983's first quarter—seven per cent below the level of a year ago. In the U.S. alone, the decline was four per cent, year-over-year.

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In 1982, U.S. petroleum demand averaged slightly more than 15 mbd, well below the record 18.8 mbd consumed in 1978 and about 12 per cent below the volume consumed in 1973. Moreover, whereas petroleum had accounted for close to one-half of U.S. energy requirements in 1973, by last year it had dropped to about 43 per cent. Contributing to the decline in the relative importance of oil was a reduction in residual oil demand by electric utilities: coal and hydropower are now generating a much larger proportion of the nation's electricity.

. . . Since Supplies . . .

Perhaps the most significant conservation efforts, however, have been made by both the American motorists and the automobile industry. For despite an almost 25 per cent rise in the number of cars in use between 1973 and 1982 and only a nine per cent drop in the average number of miles traveled per car during this period, consumption of motor gasoline in the U.S. was actually two per cent lower last year than it was in 1973. This is particularly important since gasoline consumption is the single largest component of total U.S. petroleum use—representing more than 40 per cent.

This shows that since 1973 there has been a substantial improvement in fuel efficiency of the typical American automobile. As shown in the table on the first page, the average number of miles traveled per

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/13/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	145.488	+ .177	+10.885
Loans to Depository Inst.	.585	– 1.182	– .750
Float	2.333	+ .632	– 1.202
Total Reserve Bank Credit	157.650	– .259	+ 8.956
Treasury Deposits with Federal Reserve Banks	3.009	– .852	– .617
Currency Outside Banks	139.524	+ .968	+11.176
Member Bank Reserves:			
Required	37.180	– .137	– 1.199
Excess (Deficiency)	.613	– .115	+ .295
Total Reserves Held	37.793	– .252	– .904
Net Free Reserves	.453	– 1.084	– 1.082
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.719	+ .605	+19.959

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	496.1	+ 15.1‡	+ 10.6‡
M2 (February '83)	2,066.1	+ 21.8	+ 13.0
M3 (February '83)	2,443.4	+ 11.1	+ 10.5
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 4/22/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.80%	8.00%	8.10%
* Federal Agencies	8.50	8.45	8.80
* Project Notes–Taxfree (46% Taxable Equivalent)	8.80	8.98	9.44
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.55	8.60	8.90

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.50%	May	8.45%
15- 29 days	8.50	Jun.	8.45
30- 59 days	8.50	Jul.	8.45
60- 89 days	8.50	Aug.	8.45
90-179 days	8.50	Sep.	8.45
180-239 days	8.50	Oct.	8.40
240-270 days	8.50		

‡Industrial Paper–Prime			
30- 89 days	8.50%	†Federal Funds	
90-120 days	8.38	Effective Rate	8.55%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83n	$ 3,177	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83n	$ 1,489	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83n	3.1	– 1.1	– 5.1
Change in Consumer Prices (new series)*	Mar '83n	1.2%	– 2.4%	0.0%
Change in Producer Prices*	Mar '83	– 1.2%	1.2%	– 3.6%
Civilian Employment (Thousands of Persons)†	Mar '83	99,103	99,063	99,597
Unemployment as % of Civilian Labor Force†	Mar '83	10.3%	10.4%	9.0%
Personal Income*	Mar '83n	$ 2,659	$ 2,644	$ 2,519
Leading Indicators Composite Index (1967=100)†	Feb '83	148.3	146.2	135.7
Industrial Production Index (1967=100) †	Mar '83	139.1	137.6	141.7
Net Change in Consumer Installment Credit†	Feb '83	$ 1.74	$ 2.93	$ 0.17
U.S. Merchandise Trade Balance †	Feb '83	–$ 3.58	–$ 3.57	–$ 1.79
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Mar '83n	1,611	1,775	920
New Construction Expenditures*	Feb '83	$ 250.9	$ 256.1	$ 222.6
Total Business Inventories †	Feb '83	$ 508.1	$ 507.6	$ 522.0
Total Business Sales †	Feb '83	$ 339.1	$ 343.7	$ 343.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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gallon of fuel consumed is estimated to have increased by more than 20 per cent between 1973 and 1982. Even more remarkable is the fact that this has occurred during a period of extremely sluggish new car sales since 1979— a situation which undoubtedly slowed the shift from older vehicles to more fuel-efficient models. Therefore, as the recovery picks up steam, the expected rebound in auto sales and the consequent rise in average fuel efficiency of cars utilized will dampen gasoline consumption further even if buyers lean toward purchases of larger cars. Further, with the imposition of the new five cent a gallon excise tax and the recent price hikes at the pump, the cost of a gallon of gasoline has returned to the levels of last December—high enough to discourage motorists from doing significantly more driving.

. . . Remain Plentiful

Home heating oil use is less predictable since it is determined, to a large extent, by the weather. However, a return to the energy profligacy of the pre-1973 years is hardly likely. Homeowners have made their homes more energy efficient, installing extra insulation, weather-stripping, storm windows, etc. They have lowered their thermostats and probably have gotten used to the cooler temperatures in their homes. Thousands of homeowners have switched from oil burning furnaces to natural gas.

(continued on back page)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/6/83)	103,698	– 3,374	–28,072
New York City (4/6/83)	27,308	– 1,074	– 6,207
Commercial Paper (4/6/83)	165,985	– 1,687	– 2,492*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/6/83)	217,482	+ 874	+12,204
New York City (4/6/83)	59,628	+ 333	+ 2,412

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/6/83)	505,547	+ 2,481	+22,858
New York City (4/6/83)	118,202	+ 1,192	+ 6,946

Financial Markets

	Friday 4/22/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.30%	– .07	– 4.26
180-Day Bills†	8.60	– .03	– 4.36
Longest Bills†	8.85	– .02	– 4.57
Recent Issues:			
$9^{1}/_{2}$s 4/30/85 (When Issued)	9.50	NA	
$10^{1}/_{4}$s 3/31/87	9.85	+ .02	
$10^{7}/_{8}$s 2/15/93	10.33	+ .05	
$10^{3}/_{8}$s 11/15/12	10.45	+ .11	
Municipals:			
Bond Buyer–20 Bond Index* (4/21/83)	9.09%	+ .05	– 3.20
Blue List Total ($ Million)	$1,326	+$ 215	+ $ 570
30-Day Visible Supply ($ Million)	$4,121	+$ 785	+ $1,551
Total	$5,447	+$1,000	+ $2,121
Corporates:			
Moody's Aa Composite (4/21/83)	12.05%	+ .06	– 2.74
30-Day Visible Supply ($ Million)	$ 925	+$ 198	– $ 213
Stocks:			
Dow-Jones Averages:			
Industrials	1,196.30	+ 25.05	+ 334.14
Transportation	527.24	– 2.70	+ 181.63
Utilities	127.17	+ 1.11	+ 12.58
65 Stocks	467.35	+ 5.34	+ 129.58
Standard and Poor's 500 Stocks	160.42	+ 1.67	+ 41.78
N.Y.S.E. Composite Index	92.15	+ .97	+ 23.90
N.Y.S.E. Avg. Daily Vol. for Week (000's)	97,740	+ 9,362	+ 36,212

* 46% Taxable equivalent 16.83%.

† Bond equivalent.

International Rates

	Friday 4/22/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.63%	8.50%
1 month	9.00	8.75
3 month	9.19	8.75
6 month	9.31	9.06
1 year	9.44	9.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.55%	11.55%
Long Term (7 to 15 yrs.)	11.65	11.65

FOREIGN EXCHANGE SPOT RATES New York Opening (4/22/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02051	48.76
Canada	.8137	1.2290
Denmark	.1147	8.7150
France	.1363	7.3350
Germany	.4086	2.4473
Italy	.0006861	1457.50
Japan	.004231	236.33
Mexico	.006579	152.00
Netherlands	.3629	2.7555
Switzerland	.4860	2.0578
U.K.	1.5475	.6462

Demand for residual fuel oil—heavy oil used primarily for electric power generation, industrial and commercial space heating, as ship fuel, and for various other industrial uses—posted the most dramatic decline since 1978, dropping by 44 per cent. For example, electric utilities have significantly reduced their dependence on oil. In 1978, petroleum represented nearly 17 per cent of all energy input, while in 1982 only 6.5 per cent. The use of coal expanded to 52 per cent from 43 per cent and hydropower to 15.1 per cent from 13.5 per cent.

Similarly, many manufacturers have installed dual burning furnaces (gas or oil), enabling them to switch from one fuel to the other based on the cost efficiency at any given time. As a result, consumption of residual fuel fell by nearly 21 per cent during the first quarter of 1983, year-over-year, although industrial production during this period fell by only 2.7 per cent. But the drop would have been even steeper were it not for the switch from natural gas back to oil in the industrial sector.

In sum, despite the current reduction in OPEC exports and the near-depletion of inventories, petroleum markets will continue to be weak as supplies are likely to exceed demand for most of 1983. Despite the expected pickup in the pace of business, ongoing conservation efforts by consumers and industry alike, combined with improved energy efficiency of automobiles, homes, manufacturing plants, utilities, residential and nonresidential buildings will continue to depress demand, thus keeping a lid on prices. H

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5/4/83

The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MAY 2, 1983
VOLUME XX, NUMBER 18

New York State Feels The Recession

After persistent employment gains in each of the last five years, New York State has finally been affected by the national recession, experiencing a net loss of more than 53,000 jobs last year. Employment losses were broadly-based and affected most—but not all—major industries. For example, while there was a net loss of 72,000 jobs in manufacturing, there were gains in financial and other services on the order of 47,600 jobs. However, even these increases were anemic by historical standards.

The general weakness in the state's economy was reflected in a broad array of indicators. The state's unemployment rate edged up from 7.7 per cent to 8.6 per cent between December, 1981 and December, 1982, but remained below the comparable national rate of 10.5 per cent. Unemployment would have been even higher, were it not for the fact that the state's labor force contracted by about 68,000 workers.

Retail sales weakened during 1982. Total sales rose from $70.0 billion in 1981 to $73.8 billion in 1982, a gain of only five per cent. When adjusted for the average annual inflation rate, this is equivalent to hardly any change at all. Construction activity also remained depressed. Nonresidential contract awards declined by seven per cent, reflecting growing slack in the demand for office space—particularly in New York City. Residential awards rose by seven per cent, a possible harbinger of recovery ahead. On a brighter note, defense spending exerted a positive influence on the state's economy in 1982, as Defense Department prime contract awards to the state rose 19 per cent over year-ago levels.

The abrupt turnaround in the state's economy coupled with declining Federal aid to state and local governments caused a shortfall in state revenues. The state responded by laying off 7,000 workers effective in April. Bills currently before the state legislature would broaden the base of the state sales tax, thereby increasing state revenues—but at the expense of private consumption. It therefore seems unlikely that state spending will be able to ease the economy out of the recession as it has in the past. If anything, retrenchment at the state level may well prolong the recession.

New York City Moderately Affected

During 1982, the Greater New York area gained approximately 6,400 jobs. However, New York City lost almost 7,000 jobs while the surrounding suburbs—Nassau, Suffolk, Westchester, Rockland and Putnam Counties—collectively gained more than 13,000 jobs. This contrasts with the situation that prevailed in 1981, when the city generated 55,000 new jobs while employment growth in the suburbs was held to fewer than 20,000.

At the heart of the city's problem is the renewed decline in manufacturing employment. During 1982, New York City lost more than 26,000 manufacturing jobs. These losses were only partly offset by a gain of almost 20,000 nonmanufacturing jobs, primarily in finance and services. As a consequence, New York City retail sales in 1982 increased only 0.4 per cent before adjusting for inflation, causing 5,800 retail jobs to be lost. New York City's unemployment rate remained unchanged at about nine per cent between December, 1981 and December, 1982. However, the rate would have been much higher except for a 71,000-person decline in the size of the city's civilian labor force. This might reflect, at least in part, the "discouraged worker" phenomenon.

The region's suburbs weathered the recession somewhat better than the city. Suburban manufacturing employment declined by about 4,000 jobs in 1982 but this was more than offset by broadly-based employment gains in the nonmanufacturing sector. The figures also suggest that suburban commuters garnered many of the emerging financial and service jobs in New York City, thereby bolstering the suburban economy. As a result, suburban unemployment rates remained in the 5-6 per cent range.

Growing Unemployment Upstate . . .

In Western New York State, the Buffalo and Rochester labor markets collectively lost almost

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23,000 jobs in 1982, almost 18,000 in manufacturing alone. Buffalo's economic base, which is dominated by such heavy manufacturing industries as autos and steel, seems to be more recession-prone than that of Rochester, a "high-tech" area. In 1982, Buffalo lost more than 22,000 jobs following a loss of 6,000 jobs in 1981. Rochester lost less than 1,000 jobs, despite some growth in its service industries, compared with a gain of almost 6,000 jobs in 1981.

Buffalo's economic problems are reflected in its disproportionately high unemployment rate which increased from 10.5 per cent in December, 1981 to 12.9 per cent in December, 1982. Rochester's relatively flat economy is noteworthy because it suggests that even high-technology areas can be affected by recessions. The economy pushed Rochester's unemployment rate from 6.3 per cent to 8.1 per cent between December, 1981 and December, 1982.

The economy of Central New York can best be described as flat. In 1982, the Albany area lost approximately 4,700 jobs, many in heavy machinery manufacturing around Schenectady. The Albany area also lost approximately 1,200 retail jobs and 1,000 government jobs but gained 2,000 jobs in finance and services. Albany's economy managed to hold its own during 1982 with the unemployment rate increasing from 6.6 per cent to only 7.3 per cent over the year.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/20/83	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	147.755	+ 2.267	+ 9.202
Loans to Depository Inst.	.665	+ .080	− .988
Float	2.558	+ .303	+ .165
Total Reserve Bank Credit	160.409	+ 2.837	+ 8.259
Treasury Deposits with Federal Reserve Banks	3.267	+ .258	− .991
Currency Outside Banks	140.306	+ .789	+10.845
Member Bank Reserves:			
Required	39.173	+ 1.993	− 1.074
Excess (Deficiency)	.166	− .369	− .005
Total Reserves Held	39.339	+ 1.624	− 1.079
Net Borrowed Reserves	.017	.392	− 1.058
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.589	− .130	+20.422
		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1	494.2	+ 13.8‡	+ 10.4‡
M2 (March '83)	2,065.8	+ 21.7	+ 13.0
M3 (March '83)	2,443.0	+ 11.0	+ 10.5
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 4/29/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.75%	7.80%	7.90%
* Federal Agencies	8.20	8.25	8.85
* Project Notes–Taxfree (46% Taxable Equivalent)	8.80	8.80	9.63
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.40	8.50	9.00

‡ Finance Company Paper–Prime	
5- 14 days	8.50%
15- 29 days	8.50
30- 59 days	8.38
60- 89 days	8.25
90-179 days	8.25
180-239 days	8.25
240-270 days	8.25

‡* Bankers' Acceptances	
May	8.30%
Jun.	8.25
Jul.	8.25
Aug.	8.25
Sep.	8.25
Oct.	8.20

‡ Industrial Paper–Prime	
30- 89 days	8.38%
90-120 days	8.38

† Federal Funds Effective Rate 8.60%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,177	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,489	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	3.1	− 1.1	− 5.1
Change in Consumer Prices (new series)*	Mar '83	1.2%	− 2.4%	0.0%
Change in Producer Prices*	Mar '83	− 1.2%	1.2%	− 3.6%
Civilian Employment (Thousands of Persons) †	Mar '83	99,103	99,063	99,597
Unemployment as % of Civilian Labor Force †	Mar '83	10.3%	10.4%	9.0%
Personal Income*	Mar '83	$ 2,659	$ 2,644	$ 2,519
Leading Indicators Composite Index (1967=100) †	Mar '83n	149.8	147.6	134.7
Industrial Production Index (1967=100) †	Mar '83	139.1	137.6	141.7
Net Change in Consumer Installment Credit †	Feb '83	$ 1.74	$ 2.93	$ 0.17
U.S. Merchandise Trade Balance †	Feb '83	−$ 3.58	−$ 3.57	−$ 1.79
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Mar '83	1,611	1,775	920
New Construction Expenditures*	Feb '83	$ 250.9	$ 256.1	$ 222.6
Total Business Inventories †	Feb '83	$ 508.1	$ 507.6	$ 522.0
Total Business Sales †	Feb '83	$ 339.1	$ 343.7	$ 343.1

* Seasonally adjusted annual rate. † Seasonally adjusted. n Newly reported figure. a-Anticipated.

The Binghamton area lost fewer than 1,000 jobs during 1982. Manufacturing is the area's dominant industry—but more than half of these jobs are in electronics. Manufacturing employment remained unchanged in 1982 as job losses were confined to the nonmanufacturing sector. Binghamton's unemployment rate did increase from 6.4 per cent to 8.4 per cent between December, 1981 and December, 1982, however, because of a combination of minor job losses and continued labor force growth.

The Syracuse area lost almost 2,000 jobs in 1982, and over 3,000 in durable goods manufacturing alone. However, the nonmanufacturing sector added 2,000 jobs, primarily in construction, retail trade and services. It was the weakest metropolitan area in the state in terms of construction activity. Still, Syracuse's unemployment rate remained below the national average at yearend, coming in at 8.4 per cent.

The Utica-Rome area, which specializes in such durable manufacturing industries as primary and fabricated metals and nonelectrical machinery, lost about 2,200 jobs in 1982. The loss was confined to the area's dominant durable manufacturing industries; nonmanufacturing employment was unchanged over the year. Utica's unemployment rate increased from 7.6 per cent to 10.0 per cent during 1982, reflecting both job losses and continued labor force growth.

(continued on back page)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/13/83)	104,101	+ 536	–26,760
New York City (4/13/83)	27,183	– 125	– 5,866
Commercial Paper (4/13/83)	166,952	+ 965	– 1,992*

*Series redefined. Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/13/83)	215,617	– 1,824	+10,924
New York City (4/13/83)	58,739	– 889	+ 1,791

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/13/83)	503,490	– 2,046	+22,022
New York City (4/13/83)	116,621	– 1,581	+ 4,907

Financial Markets

	Friday 4/29/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.30%	0.00	– 4.55
180-Day Bills†	8.48	– .12	- 4.98
Longest Bills†	8.63	– .22	– 4.99
Recent Issues:			
9½s 4/30/85 (When Issued)	9.27	– .23	
10¼s 3/31/87	9.67	– .18	
10⅞s 2/15/93	10.20	– .13	
10⅜s 11/15/12	10.34	– .11	
Municipals:			
Bond Buyer–20 Bond Index* (4/28/83)	8.82%	– .27	– 3.15
Blue List Total ($ Million)	$1,464	+ $138	+ $ 616
30-Day Visible Supply ($ Million)	$4,237	+ $116	+ $2,614
Total	$5,701	+ $254	+ $3,230
Corporates:			
Moody's Aa Composite (4/28/83)	11.98%	– .07	– 2.79
30-Day Visible Supply ($ Million)	$ 775	– $150	$ 416
Stocks:			
Dow-Jones Averages:			
Industrials	1,226.20	+ 29.90	+ 377.84
Transportation	524.94	– 2.30	+ 181.81
Utilities	128.41	+ 1.24	+ 14.92
65 Stocks	473.95	+ 6.60	+ 140.34
Standard and Poor's 500 Stocks	164.42	+ 4.00	+ 47.98
N.Y.S.E. Composite Index	94.27	+ 2.12	+ 27.19
N.Y.S.E. Avg. Daily Vol. for Week (000's)	101,238	+ 3,498	+ 47,780

* 46% Taxable equivalent 16.33%.

† Bond equivalent.

International Rates

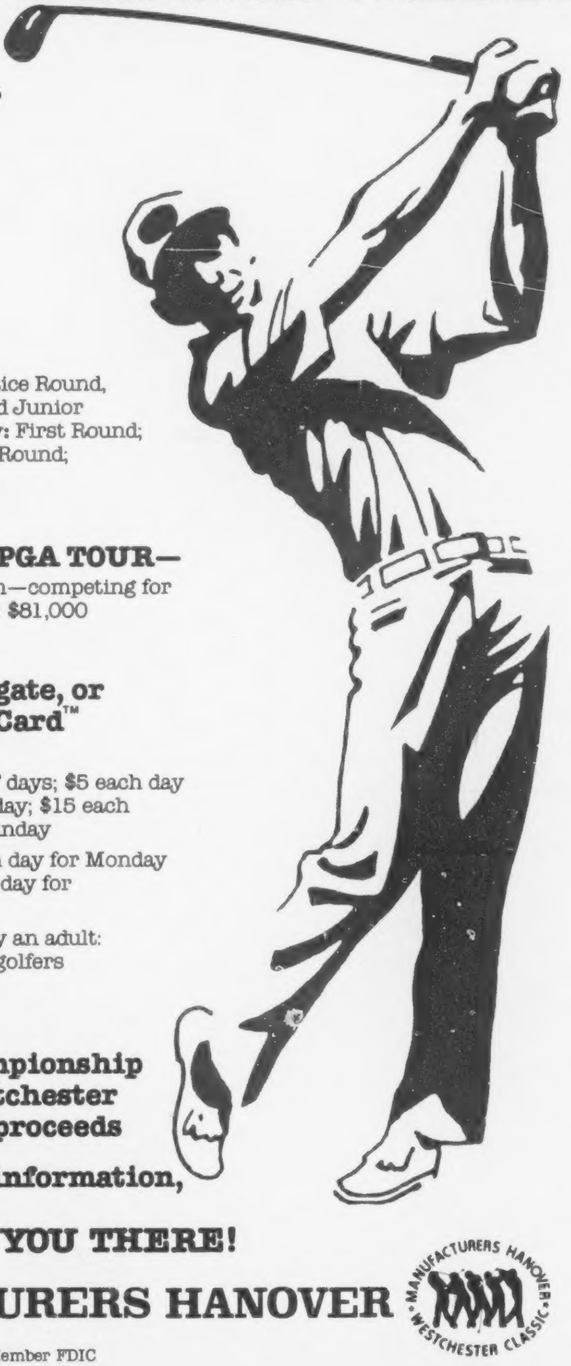
EURODOLLAR DEPOSIT RATES (bid)	Friday 4/29/83	Week Ago
Overnight	8.88%	8.63%
1 month	8.81	9.00
3 month	8.88	9.19
6 month	9.00	9.31
1 year	9.19	9.44
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.45%	11.55%
Long Term (7 to 15 yrs.)	11.55	11.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/29/83)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02043	48.95
Canada	.8168	1.2243
Denmark	.1143	8.7455
France	.1356	7.3725
Germany	.4068	2.4580
Italy	.0006845	1461.00
Japan	.004210	237.53
Mexico	.006689	149.50
Netherlands	.3615	2.7660
Switzerland	.4844	2.0642
U.K.	1.5620	.6402

. . . Except In The Hudson Valley

The Poughkeepsie metropolitan area, which encompasses Dutchess County, is the dominant labor market within the Hudson Valley. Although manufacturing accounts for about one-third of its jobs, Poughkeepsie was one of the few labor market areas in the state to gain jobs during 1982. Its employment base expanded by about 3,000 jobs—2,000 of them in manufacturing, primarily in computers and communications. Poughkeepsie's December unemployment rate, 5.8 per cent, was among the lowest in the state.



GOLF FANS' DREAM WEEK

WHAT:
The Manufacturers Hanover Westchester Classic

WHERE:
Westchester Country Club
Harrison, New York

WHEN:
Monday, June 6, thru Sunday, June 12

Monday: Practice Round; **Tuesday:** Practice Round, National Long Driving Championship and Junior Golf Day; **Wednesday:** Pro-Am; **Thursday:** First Round; **Friday:** Second Round; **Saturday:** Third Round; **Sunday:** Final Round

WHO:
Many of the top pros on the PGA TOUR—
including Bob Gilder, defending champion—competing for $450,000 in prize money. Winner's purse: $81,000

HOW:
Tickets are available at the gate, or to charge on Visa® or MasterCard™ call 212-808-8100

Sports House and Grounds: $50 for all 7 days; $5 each day for Monday and Tuesday; $10 for Wednesday; $15 each day for Thursday, Friday, Saturday and Sunday

Grounds only: $40 for all 7 days; $3 each day for Monday and Tuesday; $6 for Wednesday; $12 each day for Thursday, Friday, Saturday and Sunday

Youngsters 14 and under, accompanied by an adult: $5 (at the gate only). On Tuesday, junior golfers 18 and under are admitted free.

WHY:
The opportunity to see championship golf and support the 13 Westchester hospitals that share in the proceeds

For ticket and tournament information, call 914-967-5356

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Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MAY 9, 1983

VOLUME XX, NUMBER 19

A Successful Summit . . .

A "summit" conference of the leaders of the principal industrial nations of the Free World has become an annual event in recent years. Over the Memorial Day weekend, the heads of government of the United States, Canada, France, West Germany, Italy, Japan and the United Kingdom will meet in Williamsburg, Virginia to come to grips with the vital economic issues of the day. Although these conferences usually arouse great expectations, they are often anticlimactic. This year as well, the results which will be announced by the participants in a closing statement may again generate frustrated expectations, because the range and complexity of the world's current economic problems appear to be even greater than usual. Many of them relate to the fundamental concepts upon which the Free World's economic and financial systems are based. Further, since several negative legacies of the long and deep global recession still linger in most countries—developed and developing alike—these deliberations will have particularly widespread significance.

Although an official agenda of the forthcoming summit has not been made available, a wide variety of discussion topics has been proposed. These range from such general issues as fostering a sustained and broad-based recovery of the global economy to no less important, but more specific problems such as East-West trade. Other items crowd the potential agenda as well: the revival of world trade, which has stagnated since 1981, the threat of protectionism, low commodity prices and the sizable overhang of developing country debt, high interest rates, volatile foreign exchange rates, energy prices and global unemployment.

But while many of these issues have been discussed before, there is a difference this time around. It is a recognition among conference participants of both the predominant role the United States must play in fostering a resumption of global economic growth, as well as the role governments in general must adopt in sustaining growth once it begins. For the unfettered functioning of free markets alone has not solved all of today's economic difficulties and, indeed, during periods of extreme interest and exchange rate volatility, may well have compounded them. Thus, the industrial countries will probably continue to distance themselves from their emphasis on the "magic of the marketplace."

Two approaches appear to be possible. By electing to tackle broad, but fundamental, topics such as encouraging and supporting a return to sustained economic growth, the leaders of the seven leading industrial nations could strike at the basic economic issues of the day. If they are able to develop a concerted policy, they would at the same time solve most of such subsidiary problems as lofty levels of unemployment and stagnant world trade. The difficulty is that the more basic the problem, the more difficult it is to find a universally acceptable solution.

The alternative approach would be to select some of the narrower, more specific problems where solutions may be more readily available, but their global impact is at the same time more limited. Certainly, the participants at the summit will want to show some evidence of success to their constituents back home. Some of these leaders face the imminent prospects of an election; others, newly elected, are attending their first summit and yet others face deep political uncertainties at home. All have a vested interest in appearing both forceful and successful on the world stage.

. . . Faces Formidable Obstacles . . .

However, the major obstacle to clear and unequivocal agreements from summit meetings in the past has been, and continues to be, the clash of nationalistic goals, traditions and even prejudices against the reality of an increasingly integrated and interdependent world economic system. Each nation tends to view the world through the same end of the telescope—that is, giving priority of position to what it perceives to be its own immediate benefits. At the same time, the integration of world commodity and financial markets makes such positions increasingly untenable.

For example, even within such a narrow economic

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cooperative as the European Economic Community (EEC), the attempt to establish a viable common agricultural policy has created substantial stresses and strains. Yet the EEC is composed of a group of nations which share a more or less common cultural heritage. What is more, an even more homogeneous group, the nations comprising the European Monetary System (EMS), has been unable to stabilize its own internal exchange rate relationships. There have been seven major readjustments of exchange rates in the four-year history of the EMS, four of which have occurred in the last 18 months. It is this fundamental problem of the inability to make any aspect of sovereign power, especially the conduct of domestic monetary and fiscal policies, subservient to the wider needs of the international community as a whole, that lies at the heart of the difficulty in achieving effective results from summit meetings.

. . . But It Can Be Reached

If so, how might this difficulty be surmounted at the forthcoming Williamsburg Summit? Careful selection of the agenda topics is a necessary first step. Discovering commonly accepted communities of interest where each participant can perceive clearly the concrete benefits to his country from international cooperation is also a necessary ingredient. Success in these smaller steps not only introduces an environment of cooperation, but also forms the basis for extension into other economic areas at future summit meetings.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/27/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	147.143	– .612	+ 9.715
Loans to Depository Inst.	1.171	+ .506	– .652
Float	1.659	– .972	– .337
Total Reserve Bank Credit	159.537	– .945	+ 8.728
Treasury Deposits with Federal Reserve Banks	4.165	+ .898	– .623
Currency Outside Banks	138.873	– 1.433	+11.233
Member Bank Reserves:			
Required	38.619	– .554	– 1.492
Excess (Deficiency)	.363	+ .124	+ .078
Total Reserves Held	38.982	– .430	– 1.414
Net Free Reserves	.234	+ .290	– .900
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.748	– .841	+19.973

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	495.4	+ 12.7‡	+ 10.1‡
M2 (March '83)	2,066.0	+ 21.7	+ 13.0
M3 (March '83)	2,443.0	+ 11.0	+ 10.5
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/6/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.55%	7.55%	7.85%
* Federal Agencies	8.35	8.15	8.75
* Project Notes–Taxfree (46% Taxable Equivalent)	8.52	8.61	9.07
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.38	8.38	8.85

‡ Finance Company Paper–Prime	
5- 14 days	8.25%
15- 29 days	8.25
30- 59 days	8.25
60- 89 days	8.13
90-179 days	8.13
180-239 days	8.13
240-270 days	8.13

‡* Bankers' Acceptances	
Jun.	8.20%
Jul.	8.15
Aug.	8.10
Sep.	8.10
Oct.	8.05
Nov.	8.00

‡ Industrial Paper–Prime	
30- 89 days	8.25%
90-120 days	8.25

† Federal Funds Effective Rate	8.35%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,177	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,489	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	3.1	– 1.1	– 5.1
Change in Consumer Prices (new series)*	Mar '83	1.2%	– 2.4%	0.0%
Change in Producer Prices*	Mar '83	– 1.2%	1.2%	– 3.6%
Civilian Employment (Thousands of Persons) †	Apr '83n	99,458	99,103	99,484
Unemployment as % of Civilian Labor Force †	Apr '83n	10.2%	10.3%	9.3%
Personal Income*	Mar '83	$ 2,659	$ 2,644	$ 2,519
Leading Indicators Composite Index (1967=100) †	Mar '83	149.8	147.6	134.7
Industrial Production Index (1967=100) †	Mar '83	139.1	137.6	141.7
Net Change in Consumer Installment Credit †	Feb '83	$ 1.74	$ 2.93	$ 0.17
U.S. Merchandise Trade Balance †	Mar '83n	–$ 3.63	–$ 3.58	–$ 2.43
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Mar '83	1,611	1,775	920
New Construction Expenditures*	Mar '83n	$ 245.4	$ 249.3	$ 224.6
Total Business Inventories †	Feb '83	$ 508.1	$ 507.6	$ 522.0
Total Business Sales †	Feb '83	$ 339.1	$ 343.7	$ 343.1

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

Certainly a prime candidate for discussions on this basis at the summit would be in fostering the regeneration of world trade. Particular reference is made to the North-South flows, which have been the fastest growing segment of world trade in recent years—but which may be hampered by the inability of several advanced developing countries to secure adequate levels of trade finance. And a slightly more accommodative position by the U.S. on East-West trade could be matched by a commitment to ease the threat of protectionism by some of our trading partners.

An agreement to include international perspectives and the recognition of the important international role of the dollar as factors in the formulation of our domestic monetary policy could be matched by policies in other countries aimed at creating more stable financial and foreign exchange markets. Many of our trading partners view the current strength of the dollar as an important deterrent to their own economic growth. Indeed, at its present levels, the strong dollar has few benefits to anyone. Most world trade is denominated in dollars, hence, imports are more expensive in most foreign domestic currency terms. Further, the strong dollar encourages capital outflows to the U.S. From our point of view, a strong dollar puts a heavy burden on our export competitiveness. A resolution of this problem would benefit most countries.

Another potentially fruitful item for the Williams-

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/20/83)	101,573	– 2,528	–30,366
New York City (4/20/83)	25,913	– 1,270	-- 7,714
Commercial Paper (4/20/83)	167,751	+ 799	– 4,104*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/20/83)	216,050	+ 474	+10,314
New York City (4/20/83)	58,814	+ 75	+ 1,346

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/20/83)	504,699	+ 1,265	+22,155
New York City (4/20/83)	116,873	+ 252	+ 5,893

Financial Markets

	Friday 5/6/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.30%	–0–	– 4.28
180-Day Bills†	8.50	+ .02	– 3.53
Longest Bills†	8.67	+ .04	– 4.53
Recent Issues:			
9½s 4/30/85	9.14	– .13	
10¼s 3/31/87	9.66	– .01	
10⅛s 5/15/93 (When Issued)	10.18	NA	
10⅜s 11/15/12	10.34	–0–	
Municipals:			
Bond Buyer–20 Bond Index* (5/5/83)	8.78%	– .04	– 3.26
Blue List Total ($ Million)	$1,473	+$ 9	+ $ 545
30-Day Visible Supply ($ Million)	$5,359	+$1,122	+ $3,081
Total	$6,832	+$1,131	+ $3,626
Corporates:			
Moody's Aa Composite (5/5/83)	11.81%	– .17	– 3.05
30-Day Visible Supply ($ Million)	$1,175	+$ 400	– $ 435
Stocks:			
Dow-Jones Averages:			
Industrials	1,232.59	+ 6.39	+ 363.39
Transportation	552.10	+ 27.16	+ 199.20
Utilities	129.11	+ .70	+ 12.16
65 Stocks	483.03	+ 9.08	+ 140.50
Standard and Poor's 500 Stocks	166.10	+ 1.68	+ 46.63
N.Y.S.E. Composite Index	95.47	+ 1.20	+ 26.71
N.Y.S.E. Avg. Daily Vol. for Week (000's)	103,072	+ 1,834	+ 43,234

* 46% Taxable equivalent 16.26%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/6/83	Week Ago
Overnight	8.69%	8.88%
1 month	8.88	8.81
3 month	8.88	8.88
6 month	8.81	9.00
1 year	9.06	9.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.30%	11.45%
Long Term (7 to 15 yrs.)	11.40	11.55

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/6/83)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02047	48.86
Canada	.8157	1.2259
Denmark	.1148	8.7145
France	.1356	7.3725
Germany	.4085	2.4477
Italy	.0006865	1456.75
Japan	.004238	235.95
Mexico	.006645	150.50
Netherlands	.3636	2.7500
Switzerland	.4863	2.0562
U.K.	1.5765	.6343

burg agenda is the role of the International Monetary Fund (IMF) and similar institutions in the global financial system. This topic has the dual benefit of being currently important in relation to the problem of developing country debt, but it also has long-term significance since the IMF is almost certain to play a central role in any future revision of the international monetary system. In addition, it represents a tacit recognition of the increasing internationalization of the world economic system. The IMF's present pivotal role in resolving the problems related to financial and trade flows between the developed and developing countries adds immediacy to the question of its future responsibilities.

At this sensitive juncture in the world economy, the conclusion of the longest and deepest global recession in the postwar era, it is important that the Williamsburg conference appear harmonious and successful and that the decisions are substantive. All nations—developed and developing alike—have a vested interest in the results. It is clear that the long-awaited economic upturn is beginning, initially in the United States. This is an appropriate time to chart the economic course for the next several years and to introduce new global economic initiatives. H

Photograph courtesy of Joel Greenberg.

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Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MAY 16, 1983 VOLUME XX, NUMBER 20

The Recovery Slows A Bit . . .

Midway through the second quarter of economic recovery, concerns are developing about its durability. Although most forecasters agreed from the start that this expansion would be slow by historical standards, a number of industries seem to be experiencing setbacks. But any worries about the recovery's demise are premature. The current lull is likely to be only temporary, since numerous positive developments suggest faster economic growth soon—possibly by the end of the current quarter.

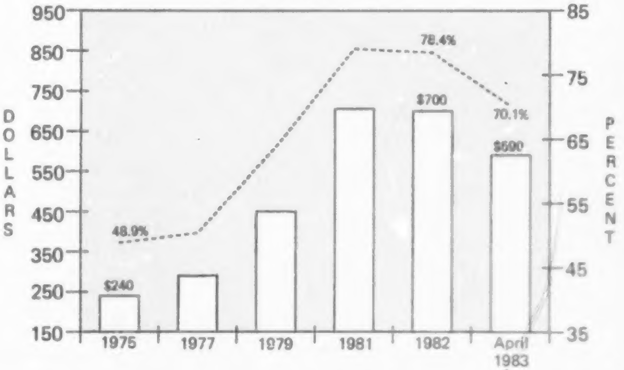
Thanks to declining interest rates, the pace of business picked up considerably late last year and the momentum continued into the first quarter. At the same time, inflation slowed to the lowest rate in decades, while most parts of the U.S. experienced the mildest three winter months (December to February) in almost 30 years.

Perhaps the greatest improvement occurred in the automobile and housing industries—the two most powerful engines behind the current recovery. Automobile sales perked up in the fourth quarter, jumping from less than five million units at a seasonally adjusted annual rate at midyear 1982 to a nearly seven million unit pace in November. Meanwhile sales of new and existing homes soared. Last May, homes sold at a 2.3 million unit annual rate clip; now they are running at a 3.3 million unit rate. In February, housing starts were running at nearly double the rate of a year ago and were 70 per cent above the level of six months before. Builders' inventories of unsold homes fell to less than 5½ months' sales in the first quarter—the lowest in seven years.

The improvement in both housing and autos has had wide ranging effects on many downstream industries. Sales of home furnishings, furniture and appliances rose by more than 11 per cent during the seven months ending in April. During 1983's first quarter, steel shipments to the appliance industry rose by 23 per cent compared with a year ago; 17½ per cent to the auto industry. Similarly, the chemical industry, the building materials industry and nonferrous metals producers, among many others, greatly benefited.

But by the end of the first quarter, some of this strong upward momentum had begun to fade. In March, housing starts fell by more than nine per cent, month-over-month, while building permits—a harbinger of future construction activity—turned down after six months of increases. Finally, the survey of purchasing managers of the nation's major companies revealed a leveling off in new orders in April, following a drop in orders to primary metals producers in March.

AVERAGE MONTHLY MORTGAGE PAYMENT (BAR) VS. % OF HOUSEHOLDS THAT CANNOT AFFORD TO BUY A NEW HOME (DOT)



. . . As Initial Pent-up Demand Is Met . . .

One factor which prompted the earlier burst of activity was lower interest rates. Once the cost of borrowing came down, many buyers quickly jumped into the market, satisfying pent-up demands, especially for such big-ticket items as housing, autos and appliances. But while this initial demand may have been relatively robust—particularly when compared with the extremely depressed levels to which sales of these items had fallen—there remain many more families with the same demands who are still priced out of the market.

The reason for this is not difficult to understand. For example, the decline in conventional 30-year mortgage rates to about 12½ per cent today from

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last year's peak of 17 per cent, saves the buyer of a median-priced home of $73,500, who puts 25 per cent down, some $200 per month. The saving is even greater for those who qualify for government-backed mortgages such as VA and FHA, which currently have a ceiling rate set at 11½ per cent. However, taking into account the rule of thumb that a household should not spend more than one-quarter of its monthly gross income for servicing its mortgage finds only about 30 per cent of first-time home buyers able to afford to buy a new home (see chart on page 1). While nearly 85 per cent of U.S. families were excluded from the market a year ago when the mortgage rate was 17 per cent, in 1975—following the end of the last prolonged recession—more than one-half of all families in the nation were able to buy a home. At today's prices, the mortgage interest rate would have to fall to eight per cent for the same proportion to qualify.

. . . But Renewed Strength . . .

Similarly, affordability remains a significant deterrent to new auto sales. The average price of a new car sold domestically was $10,240 in the first quarter of 1983. Assuming a 25 per cent down payment, at the current 15 per cent average interest rate the monthly payment on an automobile would be $270 per month, representing about 13½ per cent of the median household income. In 1975, by contrast, the monthly payment required to service a three-year auto loan was $120, representing only about ten per cent of a

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 5/4/83	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	149.012	+ 1.869	+ 6.719
Loans to Depository Inst.	.928	– .243	– .571
Float	2.291	+ .545	+ .169
Total Reserve Bank Credit	162.250	+ 2.628	+ 5.809
Treasury Deposits with Federal Reserve Banks	5.853	+ 1.688	– 3.920
Currency Outside Banks	139.069	+ .194	+11.530
Member Bank Reserves:			
Required	38.944	+ .325	– 1.171
Excess (Deficiency)	.621	+ .178	+ .177
Total Reserves Held	39.565	+ .503	– .994
Net Free Reserves	.287	+ .441	+ .923
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.831	+ .133	+19.471

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	499.5	+ 10.5‡	+ 10.3‡
M2 (April '83)	2,071.7	+ 12.7	+ 12.9
M3 (April '83)	2,452.3	+ 8.5	+ 10.3
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/13/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.70%	7.75%	7.80%
* Federal Agencies	8.30	8.25	8.65
* Project Notes—Taxfree (46% Taxable Equivalent)	8.61	8.61	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.35	8.50	9.05

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.13%	Jun.	8.25%
15- 29 days	8.25	Jul.	8.25
30- 59 days	8.25	Aug.	8.25
60- 89 days	8.13	Sep.	8.25
90-179 days	8.00	Oct.	8.25
180-239 days	8.00	Nov.	8.10
240-270 days	8.00		

‡ Industrial Paper—Prime			
30- 89 days	8.25%	† Federal Funds Effective Rate	8.40%
90-120 days	8.13		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,177	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,489	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	3.1	– 1.1	– 5.1
Change in Consumer Prices (new series)*	Mar '83	1.2%	– 2.4%	0.0%
Change in Producer Prices*	Apr '83n	– 1.2%	– 1.2%	1.2%
Civilian Employment (Thousands of Persons) †	Apr '83	99,458	99,103	99,484
Unemployment as % of Civilian Labor Force †	Apr '83	10.2%	10.3%	9.3%
Personal Income*	Mar '83	$ 2,659	$ 2,644	$ 2,519
Leading Indicators Composite Index (1967=100) †	Mar '83	149.8	147.6	134.7
Industrial Production Index (1967=100) †	Apr '83n	142.6	139.7	140.2
Net Change in Consumer Installment Credit †	Mar '83n	$ 2.58	$ 0.74	$ 0.63
U.S. Merchandise Trade Balance †	Mar '83	–$ 3.63	–$ 3.58	–$ 2.43
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Mar '83	1,611	1,775	920
New Construction Expenditures*	Mar '83	$ 245.4	$ 249.3	$ 224.6
Total Business Inventories †	Mar '83n	$ 502.9	$ 508.4	$ 521.2
Total Business Sales †	Mar '83n	$ 346.0	$ 339.8	$ 344.4

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

median monthly family income. Even for those buying cars which qualify for the 9.9 per cent financing offered by the Big Three's financial arms, the payment still takes up 12½ per cent of the median family income.

. . . Is Just Around The Corner

But the apparent slowing in the pace of economic recovery should not last. Following three months of declines, retail sales posted good-sized gains in March and April. And while a sustained housing recovery hinges strictly on further declines in mortgage interest rates, there are indications that further gains in consumer demand in other areas are in the cards. For one thing, people have become much more optimistic about their near-term economic prospects—as can be seen by the big expansion in consumer credit in March. This reflects the brightening employment picture, prospects for further cuts in income tax rates, the inflation rate remaining at exceptionally low levels and expanding personal incomes.

And any pickup in final demand will quickly translate into increased production, since inventories in a number of industries are getting thin. For example, on May 1, dealers of domestic cars reported new car inventories represented only 53 days' supply. With only one exception, this represented the lowest stock level for this month in about 20 years.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/27/83)	99,741	– 1,822	–33,666
New York City (4/27/83)	25,058	– 855	– 9,123
Commercial Paper (4/27/83)	169,490	+ 1,708	– 2,484*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/27/83)	214,638	– 1,384	+ 9,105
New York City (4/27/83)	57,876	– 938	+ 586

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/27/83)	500,458	– 4,241	+17,636
New York City (4/27/83)	114,452	– 2,421	+ 3,459

Financial Markets

	Friday 5/13/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.40%	+ .10	– 4.25
180-Day Bills†	8.60	+ .10	– 4.50
Longest Bills†	8.80	+ .13	– 4.45
Recent Issues:			
$9^{1}/_{2}$s 4/30/85	9.42	+ .26	
$10^{1}/_{4}$s 3/31/87	9.75	+ .09	
$10^{1}/_{8}$s 5/15/93 (When Issued)	10.28	+ .10	
$10^{3}/_{8}$s 11/15/12	10.43	+ .09	
Municipals:			
Bond Buyer–20 Bond Index* (5/12/83)	8.86%	+ .08	– 2.96
Blue List Total ($ Million)	$1,483	+ $ 10	+ $ 392
30-Day Visible Supply ($ Million)	$4,560	– $799	+ $2,050
Total	$6,043	– $789	+ $2,442
Corporates:			
Moody's Aa Composite (5/12/83)	11.82%	+ .01	– 2.86
30-Day Visible Supply ($ Million)	$1,224	+ $ 49	– $ 354
Stocks:			
Dow-Jones Averages:			
Industrials	1,218.75	– 13.84	+ 360.97
Transportation	547.89	– 4.21	+ 197.05
Utilities	129.61	+ .50	+ 14.04
65 Stocks	479.06	– 3.97	+ 140.21
Standard and Poor's 500 Stocks	164.90	– 1.20	+ 46.89
N.Y.S.E. Composite Index	95.07	– .40	+ 26.96
N.Y.S.E. Avg. Daily Vol. for Week (000's)	92,982	–10,090	+ 39,260

* 46% Taxable equivalent 16.41%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/13/83	Week Ago
Overnight	8.75%	8.69%
1 month	8.88	8.88
3 month	8.94	8.88
6 month	9.00	8.81
1 year	9.19	9.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.15%	11.30%
Long Term (7 to 15 yrs.)	11.25	11.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/13/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02045	48.91
Canada	.8148	1.2273
Denmark	.1150	8.6975
France	.1357	7.3680
Germany	.4085	2.4480
Italy	.0006854	1459.00
Japan	.004293	232.93
Mexico	.006689	149.50
Netherlands	.3628	2.7565
Switzerland	.4925	2.0305
U.K.	1.5653	.6389

GOLF FANS' DREAM WEEK

WHAT:

The Manufacturers Hanover Westchester Classic

WHERE:

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Harrison, New York

WHEN:

Monday, June 6, thru Sunday, June 12

Monday: Practice Round; **Tuesday:** Practice Round, National Long Driving Championship and Junior Golf Day; **Wednesday:** Pro-Am; **Thursday:** First Round; **Friday:** Second Round; **Saturday:** Third Round; **Sunday:** Final Round

WHO:

Many of the top pros on the PGA TOUR— including Bob Gilder, defending champion—competing for $450,000 in prize money. Winner's purse: $81,000

HOW:

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Grounds only: $40 for all 7 days; $3 each day for Monday and Tuesday; $6 for Wednesday; $12 each day for Thursday, Friday, Saturday and Sunday

Youngsters 14 and under, accompanied by an adult: $5 (at the gate only). On Tuesday, junior golfers 18 and under are admitted free.

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The Manufacturers Hanover
Financial
Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MAY 23, 1983

VOLUME XX, NUMBER 21

Despite Some Potholes . . .

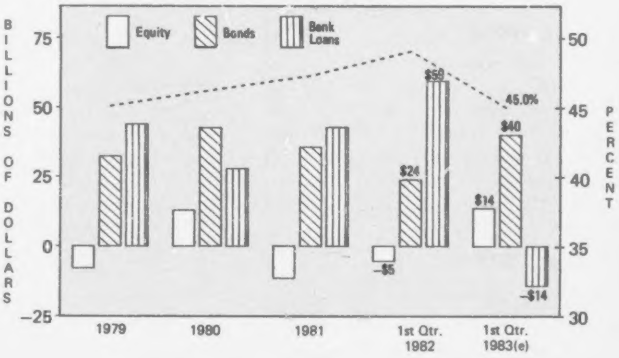
Although the Federal Reserve has repeatedly warned that trends in the M1 money supply are being severely distorted by shifting public liquidity preferences, not to mention financial deregulation and deposit innovation, the financial markets have tended to disregard such advice. Thus, when the nation's basic money supply took an unexpectedly large jump during the first week of May, the response of the credit markets was all-too-predictable: Securities prices tumbled, and yields rose accordingly. This stemmed from the widespread belief among traders and investors alike that with M1 growth accelerating, monetary ease would be put on hold, and prospects for additional interest rate declines anytime soon were remote. What is more, if money supply growth remains robust throughout May, market sentiment will undoubtedly continue to deteriorate. But is such negativism truly warranted?

The answer is—not necessarily. The recent jump in M1 has masked the emergence of a variety of economic and financial developments which suggest that the decline in interest rates might not be over. These include a pronounced slowing of both M2 and M3 growth, the ongoing slump of short-term business credit demands and the persistence of exceptionally low rates of inflation, all of which augur well for further monetary policy flexibility and lower interest rates.

Take money supply growth, for example. To be sure, the $4 billion M1 gain during the first week in May adversely affected market sentiment. But even with this increase, the slowing of M1 growth in recent weeks has been substantial. Indeed, the M1 money supply fell $1.3 billion in April, the first monthly decline since October, 1981. This, of course, represents a welcome reversal of the rates of rise in excess of 20 per cent being recorded earlier this year, when the funds shifts associated with deposit innovation were in full swing. But even more important than this has been the slowing of the growth of the broader money supply measures, a development almost totally eclipsed by the spurt in M1 growth.

In April, the M2 money supply—the aggregate to watch in 1983, according to no less of an authority than Fed Chairman Paul A. Volcker—grew by a modest $5.4 billion, well below the average, $35.6 billion monthly rise which occurred during the first quarter of this year. This placed its year-to-date growth almost $4 billion below 1983's seven per cent *lower* growth target boundary. So, too, year-to-date M3 growth has not been unduly rapid; the $9 billion April gain put the growth of this aggregate not far from the midpoint of its 1983 target boundaries. Thus, if M1 money supply developments might cause the Fed to hesitate before initiating any further moves toward monetary ease, recent M2 and M3 trends do not. Indeed, if the growth of M2 remains below its lower growth target boundary for too long, it may actually hasten an overt easing move.

SELECTED SOURCES OF U.S. NONFINANCIAL CORPORATE EXTERNAL FINANCE (BAR) VS. SHORT-TERM LIABILITIES AS A % OF TOTAL (DOT)
(Net change in amounts outstanding; quarterly data at seasonally adjusted annual rates)



. . . The Economy Remains On The Road . . .

If money supply developments are not as ominous as a first glance suggests, trends in short-term business credit demands are even more encouraging. Here, too, the emergence of a positive, credit market fundamental has been lost in the M1 fog. The fact is that slumping loan demands, together with strong

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deposit inflows at the nation's commercial banks, have substantially eased pressures in the money markets. This reflects the typical pattern of post-recession corporate finance in which improving cash flows, diminished capital outlays for plant, equipment and inventories and the funding of short-term debt in the long-term markets all combine to keep short-term credit demands quite weak (Financial Digest—March 25, 1983).

While the fading of short-term business credit demands reflects, to be sure, the funding of short-term debt in the bond markets, it is also indicative of something else: namely, the increasing importance of equity finance. Not since 1975 has stock financing played such a major role in the corporate funding process; net new stock issues accounted for approximately one-third of all external funds raised by U.S. nonfinancial corporations in the first quarter of this year.

This compares with an equity-to-external finance ratio of less than five per cent in all of 1982, and represents a development which has tended to dampen credit market pressures in general. And, along with the window of opportunity existing in the bond market, the repair of the badly worn corporate balance sheets has begun in earnest. Both relative maturity and equity ratios are being restored to some semblance of health; the ratio of short-term to total liabilities, for example, may dip to 45 per cent this year from almost 49 per cent last year—the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/11/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	146.966	– 2.046	+ 9.295
Loans to Depository Inst.	.709	– .219	– .408
Float	2.095	– .181	– .039
Total Reserve Bank Credit	159.436	– 2.799	+ 8.733
Treasury Deposits with Federal Reserve Banks	3.812	– 2.041	– .882
Currency Outside Banks	140.367	+ 1.298	+11.518
Member Bank Reserves:			
Required	37.568	– 1.376	– 1.326
Excess (Deficiency)	.336	– .270	+ .072
Total Reserves Held	37.904	– 1.646	– 1.254
Net Free Reserves	.224	– .048	+ .667
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.971	– .910	+19.442

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	506.9	+ 11.1‡	+ 10.7‡
M2 (April '83)	2,072.6	+ 12.8	+ 12.9
M3 (April '83)	2,453.7	+ 8.7	+ 10.3
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted. *** Seasonally adjusted annual rate.** **‡ Four-week moving average.**

New York Money Market

Offering Rates 5/20/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.90%	8.00%	8.05%
* Federal Agencies	8.45	8.50	8.70
* Project Notes—Taxfree (46% Taxable Equivalent)	8.80	9.63	10.37
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.65	8.80	9.35

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	8.38%	Jun.	8.50%
15- 29 days	8.38	Jul.	8.50
30- 59 days	8.38	Aug.	8.50
60- 89 days	8.38	Sep.	8.50
90-179 days	8.38	Oct.	8.50
180-239 days	8.38	Nov.	8.45
240-270 days	8.38		

‡Industrial Paper—Prime			
30- 89 days	8.40%	†Federal Funds	
90-120 days	8.40	Effective Rate	8.68%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,171	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,486	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	2.5	– 1.1	– 5.1
Change in Consumer Prices (new series)*	Mar '83	1.2%	– 2.4%	0.0%
Change in Producer Prices*	Apr '83	– 1.2%	– 1.2%	1.2%
Civilian Employment (Thousands of Persons) †	Apr '83	99,458	99,103	99,484
Unemployment as % of Civilian Labor Force †	Apr '83	10.2%	10.3%	9.3%
Personal Income*	Apr '83n	$ 2,679	$ 2,659	$ 2,536
Leading Indicators Composite Index (1967=100) †	Mar '83	149.8	147.6	134.7
Industrial Production Index (1967=100) †	Apr '83	142.6	139.7	140.2
Net Change in Consumer Installment Credit †	Mar '83	$ 2.58	$ 0.74	$ 0.63
U.S. Merchandise Trade Balance †	Mar '83	–$ 3.63	–$ 3.58	–$ 2.43
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Apr '83n	1,490	1,627	911
New Construction Expenditures*	Mar '83	$ 245.4	$ 249.3	$ 224.6
Total Business Inventories †	Mar '83	$ 502.9	$ 508.5	$ 521.2
Total Business Sales †	Mar '83	$ 346.0	$ 339.8	$ 344.4

***Seasonally adjusted annual rate.** **†Seasonally adjusted.** n-Newly reported figure. a-Anticipated.

largest year-over-year decline on record (see chart on page 1).

. . . To Lower Interest Rates

One by-product of this is that with bank loan demand softening, yet deposit inflows running at record levels due, in large part, to the exceptional popularity of money market deposit accounts, the differential between bank and Federal government borrowing costs has just about evaporated. For with the volume of certificates of deposit outstanding declining by $40 billion, or 12 per cent since the beginning of December, and Treasury borrowings soaring, the spread between three-month CDs and three-month Treasury bill rates has averaged less than 40 basis points over the past three months, a huge decline when compared with the almost three percentage point spread which existed last September.

Finally, the most important reason for expecting both monetary policy flexibility and lower interest rates in coming months is the persistence of exceptionally low rates of inflation—and the scaling back of inflation expectations among financial market participants. Wage compensation has risen by less than six per cent over the past year, while major collective bargaining settlements in private industry during the first quarter of 1983 resulted in a 1.4 per cent decline in the average wage adjustment during the first contract year—the first negative adjustment in the 15-year history of this series. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/4/83)	97,180	– 2,533	–35,092
New York City (5/4/83)	23,774	– 1,284	– 9,720
Commercial Paper (5/4/83)	171,396	+ 1,907	– 3,463*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/4/83)	216,333	+ 1,683	+ 7,614
New York City (5/4/83)	58,284	+ 408	– 674

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/4/83)	503,351	+ 3,610	+16,564
New York City (5/4/83)	116,096	+ 1,644	+ 2,817

Financial Markets

	Friday 5/20/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.60%	+ .20	– 3.20
180-Day Bills†	8.83	+ .23	– 3.65
Longest Bills†	9.10	+ .30	– 3.81
Recent Issues:			
$9\frac{1}{2}$s 4/30/85	9.70	+ .28	
$10\frac{1}{4}$s 3/31/87	10.10	+ .35	
$10\frac{1}{8}$s 5/15/93	10.62	+ .34	
$10\frac{3}{8}$s 11/15/12	10.77	+ .34	
Municipals:			
Bond Buyer–20 Bond Index* (5/19/83)	9.29%	+ .43	– 2.67
Blue List Total ($ Million)	$1,476	– $ 7	– $ 334
30-Day Visible Supply ($ Million)	$4,314	– $246	+ $2,654
Total	$5,790	– $253	+ $2,320
Corporates:			
Moody's Aa Composite (5/19/83)	12.03%	+ .21	– 2.76
30-Day Visible Supply ($ Million)	$1,115	– $109	– $1,083
Stocks:			
Dow-Jones Averages:			
Industrials	1,189.92	– 28.83	+ 354.02
Transportation	539.62	– 8.27	+ 206.06
Utilities	128.88	– .73	+ 15.10
65 Stocks	470.12	– 8.94	+ 141.76
Standard and Poor's 500 Stocks	162.14	– 2.76	+ 47.25
N.Y.S.E. Composite Index	93.71	– 1.36	+ 27.45
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,496	–10,486	+ 35,028

* 46% Taxable equivalent 17.20%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/20/83	Week Ago
Overnight	8.75%	8.75%
1 month	8.94	8.88
3 month	9.13	8.94
6 month	9.25	9.00
1 year	9.38	9.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.95%	11.15%
Long Term (7 to 15 yrs.)	11.05	11.25

FOREIGN EXCHANGE SPOT RATES New York Opening (5/20/83)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02023	49.44
Canada	.8116	1.2322
Denmark	.1133	8.8250
France	.1345	7.4375
Germany	.4040	2.4755
Italy	.0006790	1472.80
Japan	.004276	233.88
Mexico	.006711	149.00
Netherlands	.3597	2.7800
Switzerland	.4837	2.0675
U.K.	1.5563	.6425

Photograph courtesy of Joel Greenberg.

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, MAY 27, 1983
VOLUME XX, NUMBER 22

World Trade Is The Key . . .

The "Summit" meeting at Williamsburg serves once again to focus the world's attention on the importance of international trade to global economic recovery. Since the end of World War II the value of the world's merchandise exports has risen in real terms at an average rate of almost seven per cent per year. As global economic integration has developed, an ever larger percentage of GNP in most of the industrial countries of the world has been devoted to exports (see chart). In the decade ending in 1982, for example, exports of goods and services rose from almost 24 per cent of West German nominal GNP to about 34 per cent, while in France they increased from 19 per cent of GDP to 28 per cent. In the United States exports of goods and services rose from over eight per cent in 1973 to 11 per cent in 1982. Other countries both industrial and developing, show similar rates of increase.

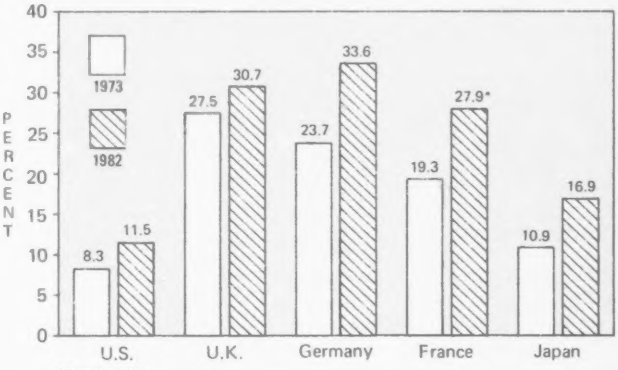
In the past two years, however, global output has fallen as a consequence of the longest and deepest worldwide recession since the 1930s. And, not surprisingly, international trade has deteriorated as well. In 1982 the value of world trade in dollar terms fell by eight per cent, after falling two per cent in 1981. This deterioration was also apparent in real terms. In 1981 the volume of world trade was one per cent below the year before, while in 1982 it declined by four per cent.

In the United States, a comparison of the real change in net exports of goods and services over the past six calendar quarters with the change in the real GNP highlights the impact of falling world trade on our economy. Although net exports (i.e., exports of goods and services less imports of goods and services) amounted to only two per cent of real GNP for the period, the drop in value of net exports accounted for about 70 per cent of the decline in real GNP.

. . . To Global Recovery . . .

What is more, the decline in world trade has coincided with sharp declines in domestic employment. In Germany, merchandise exports (which averaged over 25 per cent of GNP) fell by 3.7 per cent between the fourth quarter 1980 and the fourth quarter 1982. In the same period industrial employment declined by 3.1 per cent. In the United Kingdom, whose merchandise exports exceed 20 per cent of GDP, unemployment is at levels not seen since the Depression of the 1930s. In the other industrial countries of Europe unemployment is at or near record levels for the postwar period. The social and political impact of skyrocketing unemployment has generated strong pressure for raising barriers to the free flow of world trade with the intent of protecting domestic industries and jobs.

GOODS AND SERVICES EXPORTS AS A PERCENT OF GNP/GDP



*Data for 1981

Protectionism has always had a seductive appeal to both employers and workers since it attempts to create a protected and less competitive market. Hence, it has a strong and influential group of advocates cutting across otherwise diverse economic and political lines. Additionally, protectionism is particularly appealing to people in those industries which today are still in difficulty worldwide—automobiles, steel and textiles to name but a few. Further, the strong dollar has increased the cost of U.S. exports in terms of other currencies, thereby reducing our competitiveness. Last year the value of U.S. merchandise exports fell for the first time since 1958.

It is clear that in the arena of world trade where competition, particularly in a recessionary period, is intense, protectionism on the part of any of the

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major trading nations is likely to stimulate a similar response by other nations. In turn, this would lead to a rapid buildup of trade barriers and a sharp decline in world trade. Such a development would risk plunging industrial and developing nations alike back into recession, stultifying economic recovery in the U.S. and Europe—not to mention the developing countries as well.

Fortunately, the world leaders who gathered at Williamsburg last week see the dangers of rising protectionism and appear ready to resist its superficial allure. Further, the fight against protectionism will be strengthened by the growing economic recovery in the United States and the brightening prospects for recovery in Europe and Japan. Although U.S. exports are expected to continue to suffer from the burden of high labor costs and the strong dollar, the increased demand for imports will assist our trading partners in their efforts to stimulate their own economies. It is estimated that each one per cent rise in U.S. output generates about a three per cent boost in merchandise imports.

. . . And U.S. Growth Will Help

This year the U.S. may post a record trade deficit. Estimates run as high as $60 to $70 billion. In the first four months of this year the deficit reached $15.4 billion (exports, f.a.s./imports, c.i.f.); April's deficit was $4.6 billion—the 88th monthly deficit in a row. As the U.S. recovery gains momentum the monthly

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 5/18/83	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	148.714	+ 1.748	+ 9.890
Loans to Depository Inst.	1.074	+ .365	+ .108
Float	1.521	– .673	– .230
Total Reserve Bank Credit	159.993	+ .458	+ 9.213
Treasury Deposits with Federal Reserve Banks	3.131	– .681	+ .009
Currency Outside Banks	141.336	+ .971	+11.306
Member Bank Reserves:			
Required	37.764	+ .196	– 1.511
Excess (Deficiency)	.368	– .067	– .072
Total Reserves Held	38.132	+ .129	– 1.583
Net Borrowed Reserves	.096	+ .419	– .019
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.667	– .304	+17.775

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	509.9	+ 13.0‡	+ 11.4‡
M2 (April '83)	2,072.6	+ 12.8	+ 12.9
M3 (April '83)	2,453.7	+ 8.7	+ 10.3
Domestic Nonfinancial Debt (4th Q'82)	4,745.6	+ 10.2	+ 9.2

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 5/27/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.15%	8.25%	8.40%
* Federal Agencies	8.60	8.75	9.15
* Project Notes—Taxfree (46% Taxable Equivalent)	8.52	8.80	11.30
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.85	9.15	9.55

‡ Finance Company Paper—Prime	
5- 14 days	8.50%
15- 29 days	8.50
30- 59 days	8.50
60- 89 days	8.50
90-179 days	8.50
180-239 days	8.50
240-270 days	8.50

‡* Bankers' Acceptances	
Jun.	8.65%
Jul.	8.65
Aug.	8.70
Sep.	8.70
Oct.	8.75
Nov.	8.70

‡ Industrial Paper—Prime	
30- 89 days	8.50%
90-120 days	8.63

†Federal Funds	
Effective Rate	8.55%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,171	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,486	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	2.5	– 1.1	– 5.1
Change in Consumer Prices (new series)*	Apr '83n	7.2%	1.2%	2.4%
Change in Producer Prices*	Apr '83	– 1.2%	– 1.2%	1.2%
Civilian Employment (Thousands of Persons) †	Apr '83	99,458	99,103	99,484
Unemployment as % of Civilian Labor Force †	Apr '83	10.2%	10.3%	9.3%
Personal Income*	Apr '83	$ 2,679	$ 2,659	$ 2,536
Leading Indicators Composite Index (1967=100) †	Mar '83	149.8	147.6	134.7
Industrial Production Index (1967=100) †	Apr '83	142.6	139.7	140.2
Net Change in Consumer Installment Credit †	Mar '83	$ 2.58	$ 0.74	$ 0.63
U.S. Merchandise Trade Balance †	Apr '83n	–$ 4.60	–$ 3.63	–$ 0.50
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Apr '83	1,490	1,627	911
New Construction Expenditures*	Mar '83	$ 245.4	$ 249.3	$ 224.6
Total Business Inventories †	Mar '83	$ 502.9	$ 508.5	$ 521.2
Total Business Sales †	Mar '83	$ 346.0	$ 339.8	$ 344.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

trade deficits are expected to increase sharply.

The prospects for a record U.S. trade and current account deficit may cause the dollar to weaken later this year, particularly if interest rates decline. One beneficial effect of a softer dollar will be to make the cost of U.S. exports cheaper in terms of foreign currencies. However, because of the smaller role that U.S. exports play in the composition of U.S. GNP and due to the size of this economy, the U.S. will not benefit from growth abroad as much as other countries will from growth here. A one per cent increase in output by the rest of the world causes only a 1.3 per cent rise in U.S. exports of manufactures.

When the effect on world trade of growth in the United States is compared with the effect of growth elsewhere, the pivotal role of the U.S. economy in global recovery is clear. Although in the past other countries have attempted to be the "locomotive" to pull the rest of the world out of recession, only the United States can fulfill that task. Thus, stable, broadly-based growth in the United States is essential to a resumption of growth abroad.

If U.S. economic recovery is accompanied by monetary and financial policies aimed at reducing the Federal budget deficit, lowering interest rates and bringing the dollar into a more reasonable exchange relationship with other major currencies, then the global recovery will be stronger and more enduring, and the threat of protectionism will recede.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest	Change Since	
	Week	Week Ago	Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/11/83)	96,539	– 646	–36,847
New York City (5/11/83)	23,639	– 135	–10,827
Commercial Paper (5/11/83)	170,671	– 725	– 5,847*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
	Latest	Change Since	
Weekly Reporting Large Commercial Banks	Week	Week Ago	Year Ago
Nationwide (5/11/83)	214,345	– 1,988	+ 6,036
New York City (5/11/83)	57,535	– 749	– 1,054

	Total Loans Gross Adjusted		
	Latest	Change Since	
	Week	Week Ago	Year Ago
Nationwide (5/11/83)	499,031	– 4,327	+ 14,064
New York City (5/11/83)	114,132	– 1,964	+ 1,479

Financial Markets

	Friday	Change Since	
	5/27/83	Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.86%	+ .26	– 3.19
180-Day Bills†	9.13	+ .30	– 3.42
Longest Bills†	9.34	+ .24	– 3.61
Recent Issues:			
$9^{7}/_{8}$s 5/31/85 (When Issued)	9.93	NA	
$10^{1}/_{4}$s 3/31/87	10.25	+ .15	
$10^{1}/_{8}$s 5/15/93	10.67	+ .05	
$10^{3}/_{8}$s 11/15/12	10.85	+ .08	
Municipals:			
Bond Buyer–20 Bond Index* (5/26/83)	9.51%	+ .22	– 1.98
Blue List Total ($ Million)	$1,498	+ $ 22	+ $ 314
30-Day Visible Supply ($ Million)	$3,344	– $970	+ $1,600
Total	$4,842	– $948	+ $1,914
Corporates:			
Moody's Aa Composite (5/26/83)	12.19%	+ .16	– 2.57
30-Day Visible Supply ($ Million)	$ 760	– $355	– $1,080
Stocks:			
Dow-Jones Averages:			
Industrials	1,216.14	+ 26.22	+ 396.60
Transportation	545.10	+ 5.48	+ 224.96
Utilities	130.12	+ 1.24	+ 19.03
65 Stocks	478.03	+ 7.91	+ 158.33
Standard and Poor's 500 Stocks	164.46	+ 2.32	+ 52.58
N.Y.S.E. Composite Index	95.23	+ 1.52	+ 30.69
N.Y.S.E. Avg. Daily Vol. for Week (000's)	97,462	+ 14,966	+ 52,920

* 46% Taxable equivalent 17.61%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 5/27/83**	Week Ago
Overnight	8.63%	8.75%
1 month	9.00	8.94
3 month	9.31	9.13
6 month	9.50	9.25
1 year	9.69	9.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.15%	10.95%
Long Term (7 to 15 yrs.)	11.25	11.05

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/27/83)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01997	50.08
Canada	.8118	1.2319
Denmark	.1115	8.9650
France	.1329	7.5225
Germany	.3986	2.5090
Italy	.0006720	1488.00
Japan	.004206	237.78
Mexico	.006667	150.00
Netherlands	.3544	2.8215
Switzerland	.4800	2.0835
U.K.	1.6035	.6236

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6/9/83

The Manufacturers
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Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JUNE 6, 1983
VOLUME XX, NUMBER 23

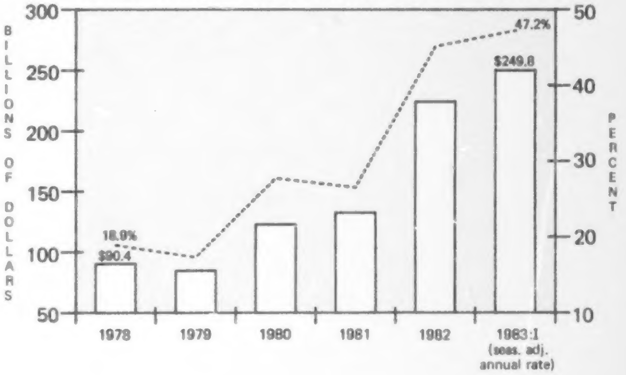
The Budget Deficit . . .

Of all the economic objectives outlined in the final communique of the recent Williamsburg Summit, perhaps the most difficult to achieve will be substantial reductions in government budget deficits. This is certainly true for the conference host, for despite ongoing Congressional and Administration wrangling and an unending stream of pronouncements that the Federal deficit must be curbed, if anything, precisely the opposite is occurring—red ink totals are soaring and future deficit estimates are being revised substantially higher. What this means is that Washington will continue to absorb record proportions of net private savings and credit market borrowings for the indefinite future, a tendency which, if left unchecked, will eventually derail either the recovery now underway or the hard won inflation rate progress of recent months.

A good example of the present budget predicament occurred in April, when several of the negative trends plaguing Federal finances came together to produce the first April deficit in almost 20 years. According to the Treasury Department, expenditures outran receipts by $3.3 billion during the month, a huge reversal when compared with the $9.7 billion budget surplus posted in April of last year. What is more, this brings the fiscal year-to-date red ink total to $132.5 billion, more than double the $62.2 billion deficit posted during the first seven months of fiscal year 1982—and indeed larger than the entire FY 1982 deficit.

What makes the April numbers particularly disturbing is that this is usually a surplus month, with receipts swollen by heavy individual income tax collections. But FY 1983 is anything but a normal year, on both the revenue and spending sides of the ledger. Take revenues, for example. Battered by double-digit rates of unemployment, the evaporation of a good-sized chunk of corporate profits and the deep cuts in personal income tax rates contained in the Economic Recovery Tax Act of 1981, personal income tax collections totaled $173.6 billion during the first seven months of fiscal 1983, or just about three per cent below comparable period, year-earlier levels. In April, the year-over-year shortfall widened even further; net collections totaled only a shade more than $35 billion during the month, 17 per cent below April, 1982 levels—and six per cent lower than the preceding, three-year April average.

FEDERAL & FEDERAL-RELATED BORROWINGS (BAR) VS. FEDERAL AND RELATED BORROWINGS AS A PERCENT OF TOTAL FUNDS RAISED IN CREDIT MARKETS (LINE)



. . . Looks Bigger Than Expected . . .

Nor has the pace of corporate tax collections fared any better; in fact, just the opposite. During the first seven months of fiscal 1983, net corporate tax receipts totaled $17.1 billion, or 43 per cent below comparable period, year-earlier levels. In April alone, corporate collections stood almost 44 per cent below the preceding three-year, April average. What is more, such taxes now account for only about eight per cent of total tax receipts, or well below the 15 per cent average which prevailed during the decade of the 1970s. All-in-all, total receipts through April were running six per cent lower than same period, fiscal 1982 levels, raising the distinct possibility that fiscal year-over-year collections will register an absolute decline for the first time in 12 years.

So, too, spending trends provide little cause for optimism. With defense spending surging higher, interest outlays on the ever-larger Federal debt growing and agriculture-related outlays much higher

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than originally anticipated, total Federal spending ran $48 billion ahead of year-earlier levels during the initial seven months of fiscal 1983. Stepped-up defense spending and debt service costs accounted for just about 40 per cent of the overall spending gain, while higher agricultural outlays accounted for an additional 15 per cent of the spending gain. And, with outlays associated with such domestic programs as extended unemployment insurance and Social Security continuing to rise, it is hardly likely that reductions in nondefense spending will help narrow the budget deficit anytime soon. Income security outlays advanced 13 per cent year-over-year, accounting for another 40 per cent of the spending gain.

Indeed, with agriculture-related outlays growing more rapidly than originally anticipated, the implementation of the withholding tax on interest and dividends sure to be postponed and windfall oil profits tax collections below expectations due to slumping oil prices, the entire fiscal 1983 deficit may exceed the Administration's current deficit prediction of $210.2 billion by some $10 to $15 billion. This means that Washington's borrowing needs will remain equally vast, absorbing record proportions of net private savings and, as shown in the chart on page 1, accounting for a record proportion of funds raised in the credit markets—a disturbing prospect for future interest rate stability

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/25/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	149.308	+ .594	+10.884
Loans to Depository Inst.	.951	– .123	– .095
Float	1.597	+ .037	– .370
Total Reserve Bank Credit	159.687	– .345	+ 9.772
Treasury Deposits with Federal Reserve Banks	2.966	– .165	– .057
Currency Outside Banks	141.235	– .103	+11.406
Member Bank Reserves:			
Required	37.640	– .124	– 1.297
Excess (Deficiency)	.408	+ .001	+ .309
Total Reserves Held	38.048	– .123	– .988
Net Borrowed Reserves	.072	+ .129	+ .599
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	107.950	– 1.717	+17.065

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	508.8	+ 13.2‡	+ 12.0‡
M2 (April '83)	2,072.7	+ 12.9	+ 12.9
M3 (April '83)	2,453.8	+ 8.7	+ 10.3
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/3/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.25%	8.35%	8.45%
* Federal Agencies	8.85	8.70	9.95
* Project Notes—Taxfree (46% Taxable Equivalent)	9.26	9.26	10.65
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.00	9.30	9.70

‡ Finance Company Paper—Prime	
5- 14 days	8.50%
15- 29 days	8.50
30- 59 days	8.75
60- 89 days	8.75
90-179 days	8.63
180-239 days	8.63
240-270 days	8.63

‡* Bankers' Acceptances	
Jul.	8.75%
Aug.	8.75
Sep.	8.75
Oct.	8.75
Nov.	8.75
Dec.	8.75

‡ Industrial Paper—Prime	
30- 89 days	8.70%
90-120 days	8.70

† Federal Funds Effective Rate 8.70%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,171	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,486	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	2.5	– 1.1	– 5.1
Change in Consumer Prices (new series)*	Apr '83	7.2%	1.2%	2.4%
Change in Producer Prices*	Apr '83	– 1.2%	– 1.2%	1.2%
Civilian Employment (Thousands of Persons) †	May '83n	99,557	99,458	99,994
Unemployment as % of Civilian Labor Force †	May '83n	10.1%	10.2%	9.4%
Personal Income*	Apr '83	$ 2,679	$ 2,659	$ 2,536
Leading Indicators Composite Index (1967=100) †	Apr '83n	152.4	150.7	136.0
Industrial Production Index (1967=100) †	Apr '83	142.6	139.7	140.2
Net Change in Consumer Installment Credit †	Mar '83	$ 2.58	$ 0.74	$ 0.63
U.S. Merchandise Trade Balance †	Apr '83	–$ 4.60	–$ 3.63	–$ 0.50
Plant and Equipment Expenditures*	2nd Q'83	$302.20(a)	$302.25(a)	$323.22
Private Housing Starts (Thousands of Units)*	Apr '83	1,490	1,627	911
New Construction Expenditures*	Apr '83n	$ 248.0	$ 246.9	$ 226.1
Total Business Inventories †	Mar '83	$ 502.9	$ 508.5	$ 521.2
Total Business Sales †	Mar '83	$ 346.0	$ 339.8	$ 344.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

once private credit demands begin to revive.

. . . But Not The Money Supply

If today's credit market fears over prospects for future budget deficits and borrowings are appropriately placed, the excessive concern gripping the markets over recent M1 money supply trends may be less so. To be sure, the M1 money supply has increased by a seasonally adjusted $15 billion over the last four statement weeks, placing its year-to-date growth almost $17 billion above its eight per cent upper target boundary. This, in turn, has raised the specter of a tightening of the money and credit reins sometime soon, despite the fragility of the current economic recovery and the already lofty level of inflation-adjusted interest rates.

However, recent money supply developments may not be as ominous as a first glance would suggest. For while the seasonally adjusted money numbers have been ballooning, the unadjusted money numbers have been declining. Thus, over the same four-week period that adjusted M1 has risen by $15 billion, unadjusted M1 has dropped by more than $5 billion. In fact, while the seasonally adjusted M1 has advanced by more than $32 billion since the turn of the year, unadjusted M1 is actually lower by nearly $4 billion!

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/18/83)	94,601	– 1,938	–39,037
New York City (5/18/83)	23,362	– 277	–11,800
Commercial Paper (5/18/83)	170,144	– 527	– 6,512*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/18/83)	213,016	– 1,329	+ 4,650
New York City (5/18/83)	57,051	– 484	– 1,100

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/18/83)	498,408	– 623	+14,288
New York City (5/18/83)	113,894	– 238	+ 2,235

Financial Markets

	Friday 6/3/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.96%	+ .10	– 3.54
180-Day Bills†	9.30	+ .17	– 3.70
Longest Bill†	9.48	+ .14	– 3.82
Recent Issues:			
$9\frac{7}{8}$s 5/31/85	10.08	+ .15	
$10\frac{1}{4}$s 3/31/87	10.40	+ .15	
$10\frac{1}{8}$s 5/15/93	10.85	+ .18	
$10\frac{3}{8}$s 11/15/12	10.95	+ .10	
Municipals:			
Bond Buyer–20 Bond Index* (6/2/83)	9.78%	+ .27	– 2.35
Blue List Total ($ Million)	$1,320	– $178	+ $129
30-Day Visible Supply ($ Million)	$2,894	– $450	+ $542
Total	$4,214	– $628	+ $671
Corporates:			
Moody's Aa Composite (6/2/83)	12.15%	– .04	– 2.88
30-Day Visible Supply ($ Million)	$590	– $170	– $1,390
Stocks:			
Dow-Jones Averages:			
Industrials	1,213.04	– 3.10	+ 408.06
Transportation	551.06	+ 5.96	+ 233.99
Utilities	129.61	– .51	+ 19.09
65 Stocks	478.64	+ .61	+ 163.15
Standard and Poor's 500 Stocks	164.42	– .04	+ 54.33
N.Y.S.E. Composite Index	95.13	– .10	+ 31.71
N.Y.S.E. Avg. Daily Vol. for Week (000's)	82,935	–14,527	+ 36,940

* 46% Taxable equivalent 18.11%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/3/83	Week Ago
Overnight	8.75%	8.63%
1 month	9.19	9.00
3 month	9.38	9.31
6 month	9.63	9.50
1 year	9.88	9.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.35%	11.15%
Long Term (7 to 15 yrs.)	11.45	11.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/3/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01970	50.76
Canada	.8131	1.2298
Denmark	.1096	9.1200
France	.1309	7.6395
Germany	.3931	2.5440
Italy	.0006631	1508.00
Japan	.004190	238.68
Mexico	.006689	149.50
Netherlands	.3503	2.8545
Switzerland	.4753	2.1040
U.K.	1.5650	.6390

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JUNE 13, 1983

VOLUME XX, NUMBER 24

As Recovery Spreads . . .

Because the recovery is almost two quarters old, good news about the economy is appearing with increasing frequency. Evidence now suggests that the recovery is not only accelerating—it is becoming more broadly based as well. At the top of the economy's good news list is the employment situation. The civilian unemployment rate declined in May for the third consecutive month. At 10.1 per cent, it now stands seven tenths of a percentage point below the post World War II high of 10.8 per cent recorded in December, 1982. Total payroll employment increased by 374,000 jobs in May alone, bringing the total gain in employment since the end of last year to 900,000.

Although this year's gain in the number of jobholders recovers only one third of the nonfarm payroll jobs lost in the 1981-82 recession, it is encouraging that the gain has been shared by all major industry groups. The construction industry, which was hard-hit by the recession, added 80,000 jobs in May, following an increase of 30,000 jobs in April. Employment in manufacturing, another sector severely affected by the recession, has risen by 210,000 jobs in the last two months. The increases were paced by advances in major metals and metal-using industries as well as industries associated with the construction sector—lumber, stone, clay and glass, and furniture. Needless to say, employment in the service sector continued to expand briskly, rising in May by 120,000 jobs, following large gains in the previous two months.

Perhaps the greatest improvement occurred in the automobile and housing industries—the two most powerful engines behind the current recovery. The nation's automakers reported that their sales for the month of May reached a seasonally adjusted annual rate of 6.7 million units—the highest level for that month in four years and a 40 per cent improvement from mid-1982. This pick-up in domestic auto sales has enabled the automakers to increase their payrolls by 105,000 workers since November, 1982, and to cut the industry's unemployment rate almost in half during this time—from 23.3 per cent in November, 1982 to 13.1 per cent last month.

The housing industry has perked up as well. In the first four months of 1983, housing starts were running at almost double the rate of the same period a year ago. The number of new homes sold so far this year is 60 per cent higher than sales in the same four months of 1982. The improvement in housing has had a ripple effect throughout the economy. As a result of the housing recovery, many sawmills that had been closed for months have begun humming again. Lumber production so far this year has been running almost 40 per cent above last year's levels. The pick-up in housing starts is also helping sales of household big-ticket items. April's shipments of furnishings, furniture and appliances rose 16 per cent from last December, seasonally adjusted, and April's 3.5 per cent increase in new orders implies future production increases in the consumer durable goods industries.

For the last ten weeks, domestic raw steel output—an upstream industry of auto and other durable goods production—has been above year-ago levels. This is the first such rise since October, 1981. Steel output now stands almost 30 per cent above year-ago levels, resulting in a doubling of capacity utilization from the post-Depression low of 30 per cent touched in December, 1982 to 60 per cent by April, 1983.

. . . The Midwest Benefits

One can almost see the recovery spreading throughout the country. Since the economy's driving forces at the moment are the housing and auto industries, states dependent on motor vehicle, steel and lumber production have been the first to feel the improvement. For the nation's industrial heartland, which suffered a severe blow from the 1981-82 recession on top of its earlier decline, these developments bring a good measure of cheer. The region, which is believed to encompass Indiana, Illinois, Michigan, Ohio, Wisconsin and Pennsylvania, produces half of the nation's cars and trucks, two thirds of its steel, more than one quarter of all manufactured durable goods and 60 per cent of the country's machine tools.

To be sure, it is unlikely that the economic recovery will return many of Smokestack America's indus-

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tries to their previous peak levels of production and employment. Structural changes in technology, low capacity utilization and relatively high interest rates are holding back investment in a lot of the goods produced in this region. Unemployment in the states of this region remains above the national average, with Michigan's rate of 15.5 per cent in May the highest of the ten largest industrial states in the country. But for a region which was mired in recession for more than four years, even a small improvement is a welcome development. Many major industrial cities of the region report that their unemployment rates are edging down from their peak levels.

In the longer run, the region's hope might lie in diversification—in moving away from traditional manufacturing toward such high-technology and service-oriented industries as education, health care, finance and trade, which are less sensitive to the swings in the business cycle. The Midwest may be better prepared to make such a transition than it seems. A study released recently by the Joint Economic Committee of the U.S. Congress concluded that the region could attract more high-technology businesses because of its skilled labor force and many universities. Major efforts by local business and political leaders are under way to attract new industries, but the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/1/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	149.394	+ .086	+10.448
Loans to Depository Inst.	1.133	+ .182	+ .085
Float	1.716	+ .067	− .707
Total Reserve Bank Credit	160.338	+ .599	+ 9.128
Treasury Deposits with Federal Reserve Banks	2.883	− .083	+ .045
Currency Outside Banks	141.683	+ .447	+11.373
Member Bank Reserves:			
Required	37.745	+ .105	− 1.177
Excess (Deficiency)	.500	+ .040	− .172
Total Reserves Held	38.245	+ .145	− 1.349
Net Free Reserves	.006	− .118	− .010
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.083	+ 2.133	+19.048

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	508.5	+ 13.6‡	+ 12.1‡
M2 (May '83)	2,097.9	+ 9.7	+ 13.4
M3 (May '83)	2,479.2	+ 8.4	+ 10.6
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/10/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.20%	8.35%	8.50%
* Federal Agencies	8.73	9.05	9.70
* Project Notes—Taxfree (46% Taxable Equivalent)	8.70	9.07	10.37
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.30	9.55	10.10

‡ Finance Company Paper—Prime	
5- 14 days	8.75%
15- 29 days	8.88
30- 59 days	9.00
60- 89 days	9.00
90-179 days	9.00
180-239 days	8.88
240-270 days	8.88

‡* Bankers' Acceptances	
Jul.	9.00%
Aug.	9.00
Sep.	9.00
Oct.	9.10
Nov.	9.10
Dec.	9.05

‡ Industrial Paper—Prime	
30- 89 days	8.90%
90-120 days	8.90

† Federal Funds Effective Rate	8.80%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,171	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,486	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	2.5	− 1.1	− 5.1
Change in Consumer Prices (new series)*	Apr '83	7.2%	1.2%	2.4%
Change in Producer Prices*	May '83n	3.6%	− 1.2%	0.0%
Civilian Employment (Thousands of Persons) †	May '83	99,557	99,458	99,994
Unemployment as % of Civilian Labor Force †	May '83	10.1%	10.2%	9.4%
Personal Income*	Apr '83	$ 2,679	$ 2,659	$ 2,536
Leading Indicators Composite Index (1967=100) †	Apr '83	152.4	150.7	136.0
Industrial Production Index (1967=100) †	Apr '83	142.6	139.7	140.2
Net Change in Consumer Installment Credit †	Mar '83	$ 2.58	$ 0.74	$ 0.63
U.S. Merchandise Trade Balance †	Apr '83	−$ 4.60	−$ 3.63	−$ 0.50
Plant and Equipment Expenditures*	3rd Q'83n	$306.83(a)	$302.23r(a)	$315.79
Private Housing Starts (Thousands of Units)*	Apr '83	1,490	1,627	911
New Construction Expenditures*	Apr '83	$ 248.0	$ 246.9	$ 226.1
Total Business Inventories †	Mar '83	$ 502.9	$ 508.5	$ 520.4r
Total Business Sales †	Mar '83	$ 346.0	$ 339.8	$ 347.1r

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

transition will not be quick or painless.

Diversification Aids New England

Perhaps the best example of a transformation from an aging industrial base to sectors less sensitive to the business cycle is the New England region. Such old-line manufacturing industries as textiles and shoes have been largely replaced by a new industry mix encompassing high-technology, health care, trade, finance, law, insurance, business consulting and management firms. Defense-related industries are another source of economic strength. New England which provides only 7.6 per cent of the nation's total manufacturing jobs, receives about 13 per cent of the nation's prime defense contracts, amounting to $13 billion.

In March, 1983, the region's jobless rate was only 8.8 per cent, two percentage points below the seasonally unadjusted rate of 10.8 per cent for the nation. By contrast, in the 1973-75 recession, which was less severe than the slump of 1981-82, New England's unemployment rate far exceeded the nation's. For example, in 1975, 8.5 per cent of the nation's labor force was unemployed, while in New England 10.3 per cent were jobless—the highest rate of all the major regions.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/25/83)	95,133	+ 532	–40,690
New York City (5/25/83)	23,408	+ 46	–10,685
Commercial Paper (5/25/83)	169,630	– 514	– 6,882*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/25/83)	212,619	– 397	+ 3,489
New York City (5/25/83)	56,787	– 264	– 1,891

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/25/83)	497,326	– 1,082	+11,038
New York City (5/25/83)	113,535	– 359	+ 793

Financial Markets

	Friday 6/10/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.94%	– .02	– 3.68
180-Day Bills†	9.26	– .04	– 3.94
Longest Bills†	9.44	– .04	– 4.12
Recent Issues:			
$9^{7}/_{8}$s 5/31/85	10.03	– .05	
$10^{1}/_{4}$s 3/31/87	10.36	– .04	
$10^{1}/_{8}$s 5/15/93	10.78	– .07	
$10^{3}/_{8}$s 11/15/12	10.87	– .08	
Municipals:			
Bond Buyer–20 Bond Index* (6/9/83)	9.69%	– .09	– 2.71
Blue List Total ($ Million)	$1,280	– $ 40	+ $223
30-Day Visible Supply ($ Million)	$2,415	– $479	– $439
Total	$3,695	– $519	– $216
Corporates:			
Moody's Aa Composite (6/9/83)	12.21%	+ .06	– 2.92
30-Day Visible Supply ($ Million)	$900	+ $310	– $1,105
Stocks:			
Dow-Jones Averages:			
Industrials	1,196.11	– 16.93	+ 386.37
Transportation	572.94	+ 21.88	+ 254.44
Utilities	126.80	– 2.81	+ 16.84
65 Stocks	479.48	+ .84	+ 162.83
Standard and Poor's 500 Stocks	162.68	– 1.74	+ 51.44
N.Y.S.E. Composite Index	94.45	– .68	+ 30.51
N.Y.S.E. Avg. Daily Vol. for Week (000's)	85,830	+ 2,895	+ 32,356

* 46% Taxable equivalent 17.94%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/10/83	Week Ago
Overnight	8.88%	8.75%
1 month	9.50	9.19
3 month	9.75	9.38
6 month	10.00	9.63
1 year	10.31	9.88
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.45%	11.35%
Long Term (7 to 15 yrs.)	11.55	11.45

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/10/83)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01960	51.03
Canada	.8109	1.2332
Denmark	.1096	9.1200
France	.1302	7.6825
Germany	.3920	2.5513
Italy	.0006614	1512.00
Japan	.004127	242.30
Mexico	.006734	148.50
Netherlands	.3498	2.8590
Switzerland	.4715	2.1210
U.K.	1.5803	.6328

Photograph courtesy of Joel Greenberg.

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JUNE 20, 1983
VOLUME XX, NUMBER 25

A Fixed Exchange Rate System . . .

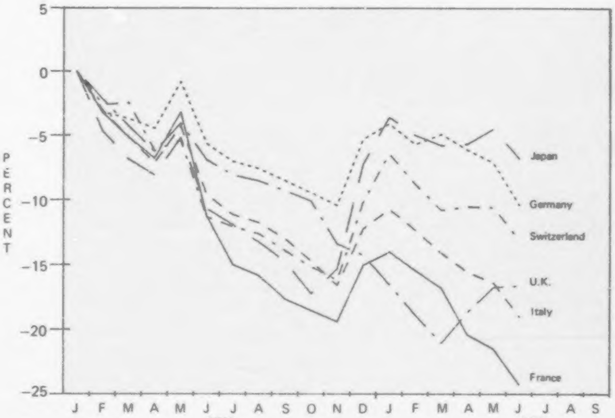
Although the call by President Mitterrand of France for a conference on the international monetary system received grudging acceptance by the participants at the Williamsburg Summit Meeting, the associated idea of a return to fixed exchange rates did not. The joint declaration at the end of the conference agreed "to consider the part which might, in due course, be played . . . by a high-level international monetary conference." The additional burdens placed on the already overburdened French economy by the persistent strength of the dollar lies behind President Mitterrand's advocacy of fixed rates.

In the three weeks which have elapsed since the end of the Summit, the dollar has continued its recent surge against the other principal trading currencies, hitting record highs against the French franc. Last week, the franc was over ten per cent below its level against the dollar in January (see chart). On a trade-weighted basis, the dollar has appreciated five per cent in the same period and is now within one index point of its high of last November.

High real interest rates, particularly long-term rates in the United States, continue to sustain the dollar. These high real interest rates are fed not only by the huge fiscal years 1982 and 1983 Federal budget deficits, but by the prospects of massive deficits in the future. These rates attract capital inflows, adding to the demand for dollars, and they undermine the confidence of business in the near-term prospects for further interest rate cuts. The sensitivity of foreign exchange rates to changes in interest rates is clearly indicated by the weakening of the dollar against the other major currencies late last year, when reductions in the U.S. discount and prime rates led foreign investors to think that interest rates were finally on their way down. The dollar again surged when the decline in interest rates stopped.

The damage done abroad by the strong dollar is widespread. In addition to investment-related capital outflows from other countries to the U.S., most international trade transactions, particularly oil prices, are denominated in dollars. Thus, the cost of imports for foreign countries rises in terms of their domestic currencies each time the dollar appreciates. At the same time, the interest cost on their dollar borrowings becomes more onerous.

VALUE IN U.S. DOLLARS OF CURRENCIES
% CHANGE FROM JAN. 1982



. . . Won't Solve The Problems . . .

In spite of the problems created by the prolonged overvaluation of the dollar, most commercial bankers, central bankers and economists agree that a fixed exchange rate system would not be viable or workable in the current economic environment. In fact, the Bretton Woods system of fixed exchange rates was workable only as long as the United States was willing and able to act as the world's banker by guaranteeing to redeem dollars for gold at a fixed price. When this guarantee was repudiated in 1973, the system rapidly fell apart.

But even under the Bretton Woods system, changes in exchange rates became increasingly frequent as the major industrial economies recovered at different rates from the effects of World War II. By the time that the Bretton Woods system finally expired, several nations, including West Germany and Japan, had again become major economic powers and were eager to play an independent role as they pursued their own economic goals.

It is the divergence of economic goals and, more particularly, economic performance, which causes exchange rates to diverge. Differing rates of inflation,

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for example, alter the purchasing power relationship between two currencies, causing the one with the lower inflation rate (and, hence, more "real" value) to rise against the other.

In the present floating foreign exchange arrangement where few restrictions are placed upon adjustments among currencies, exchange rate changes can be both large and rapid. The European Monetary System (EMS), which is an attempt by ten European countries to establish a semi-fixed currency relationship, has found it necessary to adjust its intra-system exchange rates with increasing frequency, particularly in the last 18 months, as inflation rates began to diverge widely. For example, over the past year, consumer prices in France have risen 9.1 per cent, whereas in Germany, they have risen by only three per cent. The EMS cannot long sustain such disparities in economic performance. The difficulties in maintaining stable exchange rate parities experienced by fixed, semi-fixed and floating arrangements leads to the conclusion that the system under which currencies are traded is less important than the economic environment. Fixed exchange rate systems collapse under the pressure of divergent economic performance and floating rate or semi-fixed systems (such as the EMS) become volatile and unstable.

. . . Of Divergent Economic Performance

The problems associated with returning to a fixed rate system are widely recognized. Even

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/8/83	$ Change Since	
Reserve Bank Credit		Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	149.448	+ .054	+10.739
Loans to Depository Inst.	.906	– .227	– .398
Float	2.195	+ .404	– .269
Total Reserve Bank Credit	160.560	+ .145	+ 9.565
Treasury Deposits with Federal Reserve Banks	2.648	– .235	– .761
Currency Outside Banks	142.671	+ .984	+11.705
Member Bank Reserves:			
Required	37.031	– .714	– 1.370
Excess (Deficiency)	.749	+ .172	+ .600
Total Reserves Held	37.780	– .542	– .770
Net Free Reserves	.403	+ .321	+ 1.226
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.145	+ .062	+17.610

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1	514.1	+ 13.8‡	+ 12.4‡
M2 (May '83)	2,097.2	+ 9.1	+ 13.3
M3 (May '83)	2,477.3	+ 7.7	+ 10.6
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/17/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.15%	8.25%	8.35%
* Federal Agencies	9.00	9.15	9.70
* Project Notes–Taxfree (46% Taxable Equivalent)	9.07	9.07	10.56
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.13	9.45	9.80

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.88%	Jul.	8.90%
15- 29 days	9.00	Aug.	8.90
30- 59 days	9.00	Sep.	8.90
60- 89 days	8.88	Oct.	9.00
90-179 days	8.88	Nov.	9.00
180-239 days	8.88	Dec.	8.95
240-270 days	8.88		

‡ Industrial Paper–Prime			
30- 89 days	8.88%	† Federal Funds	
90-120 days	8.88	Effective Rate	9.05%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,171	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,486	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	2.5	– 1.1	– 5.1
Change in Consumer Prices (new series)*	Apr '83	7.2%	1.2%	2.4%
Change in Producer Prices*	May '83	3.6%	– 1.2%	0.0%
Civilian Employment (Thousands of Persons) †	May '83	99,557	99,458	99,994
Unemployment as % of Civilian Labor Force †	May '83	10.1%	10.2%	9.4%
Personal Income*	Apr '83	$ 2,679	$ 2,659	$ 2,536
Leading Indicators Composite Index (1967=100) †	Apr '83	152.4	150.7	136.0
Industrial Production Index (1967=100) †	May '83n	144.3	142.7r	139.2
Net Change in Consumer Installment Credit †	Apr '83n	$ 2.27	$ 2.58	$ 1.62
U.S. Merchandise Trade Balance †	Apr '83	–$ 4.60	–$ 3.63	–$ 0.50
Plant and Equipment Expenditures*	3rd Q'83	$306.83(a)	$302.23(a)	$315.79
Private Housing Starts (Thousands of Units)*	May '83n	1,791	1,504r	1,028
New Construction Expenditures*	Apr '83	$ 248.0	$ 246.9	$ 226.1
Total Business Inventories †	Apr '83n	$ 505.6	$ 503.2r	$ 523.4
Total Business Sales †	Apr '83n	$ 350.6	$ 348.0r	$ 344.9

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

before the Williamsburg Summit, the heads of the central banks of the United States, Japan, France and Germany at a meeting in Brussels concluded that a return to a fixed rate system, which includes the obligation of central banks to intervene in the foreign exchange markets to sustain a threatened currency, is not possible in the foreseeable future. Foreign exchange reserves can become rapidly depleted in attempting to defend an unrealistic exchange rate against market perceptions of a currency's value. Between the end of January and the end of March, France's foreign exchange reserves fell from $17.6 billion to $14.2 billion, due to heavy intervention in the foreign exchange markets in defense of the franc.

Intervention by central banks in world foreign exchange markets has not proven effective in sustaining an exchange rate which market participants perceive as being unrealistic under any exchange rate system. Hence, central banks are reluctant to commit a large portion of their reserves to this goal. Intervention, at best, buys a little time for corrective policy changes (including devaluation, where feasible) or as a method of countering "disorderly markets," that is smoothing the downward slide of a currency. It is clear that the reintroduction of a fixed exchange rate system would not resolve the current disarray in world currency markets.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/1/83)	94,332	− 802	−41,432
New York City (6/1/83)	23,098	− 310	−10,261
Commercial Paper (6/1/83)	168,729	− 901	− 7,889*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/1/83)	214,637	+ 2,018	+ 4,812
New York City (6/1/83)	58,094	+ 1,307	− 833

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/1/83)	505,125	+ 7,779	+15,709
New York City (6/1/83)	117,945	+ 4,410	+ 3,822

Financial Markets

	Friday 6/17/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.10%	+ .16	− 4.16
180-Day Bills†	9.40	+ .14	− 4.80
Longest Bills†	9.65	+ .21	− 4.83
Recent Issues:			
10s 6/30/85 (When Issued)	10.15	NA	
$10\frac{1}{4}$s 3/31/87	10.45	+ .09	
$10\frac{1}{8}$s 5/15/93	10.75	− .03	
$10\frac{3}{8}$s 11/15/12	10.78	− .09	
Municipals:			
Bond Buyer–20 Bond Index* (6/16/83)	9.38%	− .31	− 3.25
Blue List Total ($ Million)	$1,002	−$ 278	− $ 7
30-Day Visible Supply ($ Million)	$1,284	−$1,131	− $884
Total	$2,286	−$1,409	− $891
Corporates:			
Moody's Aa Composite (6/16/83)	12.08%	− .13	− 3.21
30-Day Visible Supply ($ Million)	$675	− $225	− $700
Stocks:			
Dow-Jones Averages:			
Industrials	1,242.19	+ 46.08	+ 453.57
Transportation	581.12	+ 8.18	+ 276.11
Utilities	129.06	+ 2.26	+ 22.36
65 Stocks	492.99	+ 13.51	+ 186.21
Standard and Poor's 500 Stocks	169.13	+ 6.45	+ 61.85
N.Y.S.E. Composite Index	98.00	+ 3.55	+ 36.26
N.Y.S.E. Avg. Daily Vol. for Week (000's)	100,132	+14,302	+ 51,204

* 46% Taxable equivalent 17.37%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 6/17/83**	Week Ago
Overnight	9.00%	8.88%
1 month	9.38	9.50
3 month	9.56	9.75
6 month	9.75	10.00
1 year	10.00	10.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.30%	11.45%
Long Term (7 to 15 yrs.)	11.40	11.55

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/17/83)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01972	50.70
Canada	.8113	1.2326
Denmark	.1102	9.0755
France	.1309	7.6415
Germany	.3933	2.5425
Italy	.0006629	1508.50
Japan	.004189	238.73
Mexico	.006734	148.50
Netherlands	.3522	2.8393
Switzerland	.4740	2.1098
U.K.	1.5295	.6538

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Financial
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B5 350-6/27/83 A

The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JUNE 27, 1983 VOLUME XX, NUMBER 26

As The Economy Heats Up . . .

Of all the favorable economic news reported in recent weeks, one of the brightest pieces was the so-called "flash" estimate of second quarter, real gross national product growth. According to the Commerce Department, the inflation-adjusted GNP expanded at a hefty 6.6 per cent seasonally adjusted annual rate in the second quarter, the fastest quarterly rate of rise since the first quarter of 1981. But while this report does indeed seem to confirm the wide variety of signs that the pace of recovery is much stronger than originally anticipated, it also does something else: it raises the disturbing possibility that private credit demands will revive strongly as well. With the process of inventory liquidation almost over, restocking about to begin and households returning to the credit markets, it may only be a matter of time before the upturn in private borrowings clashes head-on with Washington's enormous credit appetite.

To be sure, the rise in the overall GNP does provide a substantial fillip to a recession-weary economy, not to mention the Administration. The recent gains in automobile sales, housing starts and non-auto retail sales all suggest that final sales posted a healthy rise in the second quarter. But, by far, the largest chunk of the overall gain apparently stemmed from the virtual cessation of inventory liquidation. With consumers finally loosening their purse strings and stepping up spending, many businessmen apparently believe that this recovery is for real, and are no longer satisfying demand by simply drawing down stocks. Rather, they are doing just the opposite—increasing production to meet growing demand, as well as rebuild inventories. Whereas businesses liquidated inventories at an inflation-adjusted $16 billion annual rate in the first quarter of 1983, they may have actually added to them slightly in the current quarter. This big swing in inventories alone added at least four full percentage points to the second quarter's real GNP growth rate.

And herein lies the rub. For if businessmen now think that the recovery will not only persist, but turn out to be much stronger than anticipated, a period of aggressive stock rebuilding may well lie ahead. If it does, it appears a good bet that business credit needs for at least working capital purposes will also bounce back. And, with consumer confidence brightening, households can be expected to step up their spending on such big-ticket items as housing and automobiles—largely bought on credit. However, it has been the soft pace of private borrowings to date, together with a generally accommodative Federal Reserve monetary policy, which has calmed the often turbulent financial markets in recent months and, in so doing, enabled the Treasury to finance its borrowing needs without generating strong upward pressures on interest rates.

TOTAL FUNDS RAISED IN THE CREDIT MARKETS IN CYCLICAL PERSPECTIVE

(as a percentage share of GNP during first year of recovery)

First Recovery Year	Total	Federal and Related	State & Local Governments	Private
May 54–May 55	9.3	0.4	1.4	7.4
Apr 58–Apr 59	10.9	2.0	1.2	7.6
Feb 61–Feb 62	10.3	2.2	1.1	7.0
Nov 70–Nov 71	14.3	2.9	1.6	9.8
Mar 75–Mar 76	15.1	6.3	1.0	7.8
Jul 80–Jul 81	18.7	4.7	0.8	13.2
AVERAGE	13.1	3.1	1.2	8.8
Jan 83–Mar 83	16.7	7.9	1.7	7.2

. . . Total Credit Demands . . .

Take, for example, the first quarter numbers on economy-wide credit demands. With households still

DIGEST GOES BIWEEKLY

The weekly Financial Digest will be published biweekly during July and August. The next issue will be dated July 11.

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cautious, and business cash flow exceeding capital outlays for new plant, equipment and inventories, private credit needs remained soggy during the January-March quarter. They ran at a $227 billion seasonally adjusted annual rate during the period—13 per cent below first quarter 1982 levels. Unfortunately, the interest rate dampening effects that could normally have been expected to arise from all this were almost entirely dissipated by stepped-up Federal, state and local government borrowings.

With the Federal government's "on-budget" deficit alone running at a $221 billion annual rate through the first eight months of fiscal year 1983, and state and local governments caught in a financial squeeze caused by lower tax collections due to recession, diminished Federal assistance and still rising expenses, it is hardly surprising that any slack in the debt markets was largely offset by stepped-up government borrowings. Federal and Federal-related borrowings in the first quarter ran a sizable 72 per cent higher than same period, 1982 levels while state and local government borrowings just about doubled compared with the level of a year earlier. Putting these numbers together, total credit demands in the first quarter advanced 22 per cent year-over-year, expanding at a $530 billion seasonally adjusted annual rate.

. . . Could Boil Over

When these numbers are placed in cyclical perspective and compared with the size of GNP, prospects for extended financial market stability, and lower interest rates, fade even further. For, as shown in the table on the first page, the volume of total

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/15/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	149.814	+ .366	+ 9.394
Loans to Depository Inst.	1.812	+ .906	+ .883
Float	1.514	– .589	– .574
Total Reserve Bank Credit	161.378	+ .910	+ 9.283
Treasury Deposits with Federal Reserve Banks	3.131	+ .483	+ .181
Currency Outside Banks	142.730	+ .061	+11.244
Member Bank Reserves:			
Required	37.591	+ .560	– 1.761
Excess (Deficiency)	.364	– .293	+ .125
Total Reserves Held	37.955	+ .267	– 1.636
Net Borrowed Reserves	.242	+ .553	– .123
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.228	+ .083	+15.531

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	511.3	+ 12.3‡	+ 12.5‡
M2 (May '83)	2,097.2	+ 9.1	+ 13.3
M3 (May '83)	2,477.3	+ 7.7	+ 10.6
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/24/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.45%	8.60%	8.65%
* Federal Agencies	8.38	9.02	9.69
* Project Notes—Taxfree (46% Taxable Equivalent)	8.52	8.98	10.74
Negotiable Time CDs Manufacturers Hanover*	Rates By Arrangement		
* Secondary Market—Prime	9.40	9.63	10.15

‡ Finance Company Paper—Prime	
5- 14 days	8.75%
15- 29 days	9.25
30- 59 days	9.13
60- 89 days	9.00
90-179 days	9.00
180-239 days	9.00
240-270 days	9.00

‡* Bankers' Acceptances	
Jul.	9.15%
Aug.	9.15
Sep.	9.15
Oct.	9.20
Nov.	9.25
Dec.	9.15

‡ Industrial Paper—Prime	
30- 89 days	9.13%
90-120 days	9.10

†Federal Funds Effective Rate 9.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,171r	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,487r	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	2.6r	– 1.1	– 5.1
Change in Consumer Prices (new series)*	May '83n	6.0%	7.2%	12.0%
Change in Producer Prices*	May '83	3.6%	– 1.2%	0.0%
Civilian Employment (Thousands of Persons) †	May '83	99,557	99,458	99,994
Unemployment as % of Civilian Labor Force†	May '83	10.1%	10.2%	9.4%
Personal Income*	May '83n	$ 2,711	$ 2,679	$ 2,556
Leading Indicators Composite Index (1967=100) †	Apr '83	152.4	150.7	136.0
Industrial Production Index (1967=100) †	May '83	144.3	142.7	139.2
Net Change in Consumer Installment Credit†	Apr '83	$ 2.27	$ 2.58	$ 1.62
U.S. Merchandise Trade Balance †	Apr '83	–$ 4.60	–$ 3.63	–$ 0.50
Plant and Equipment Expenditures*	3rd Q'83	$306.83(a)	$302.23(a)	$315.79
Private Housing Starts (Thousands of Units)*	May '83	1,791	1,504	1,028
New Construction Expenditures*	Apr '83	$ 248.0	$ 246.9	$ 226.1
Total Business Inventories †	Apr '83	$ 505.6	$ 503.2	$ 523.4
Total Business Sales †	Apr '83	$ 350.6	$ 348.0	$ 344.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

funds raised in the credit markets during the first quarter of 1983 was equivalent to 16.7 per cent of GNP.

If this proportion persists for the entire year, it would be larger than that posted during the first year of recovery from five of the six preceding postwar recessions—and almost one-third higher than the preceding six-recovery average. The only first-year recovery period in which the funds raised-to-GNP share was higher was in 1980-81, when soaring funds demands pushed interest rates sharply higher within just a few short months.

But will a repetition of the 1980-81 behavior of interest rates actually occur? Not necessarily—but only if the pace of recovery, and private credit demands, remains subdued. For if private borrowings do indeed swell at a rate at or near their first recovery year average of 9.5 per cent, and Federal, state and local borrowings do not drop, total funds raised in the credit markets will easily surpass $550 billion this year—a record dollar level, equivalent to about 17 per cent of GNP. But, rather than restraining the private sector, a much better solution would be to throttle back Federal borrowings. If Federal borrowings in 1983's first quarter had been equivalent to the same share of GNP as prevailed during the preceding six-recovery average, the ratio of funds raised to GNP would have stood below 12 per cent—the smallest share during the first year of a recovery since the early 1960s. At this level, credit demands would undoubtedly be prompting lower, rather than higher, interest rates.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/8/83)	94,947	+ 677	–41,416
New York City (6/8/83)	22,751	– 347	–10,744
Commercial Paper (6/8/83)	170,915	+ 1,528	– 6,279*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/8/83)	212,653	– 1,773	+ 2,297
New York City (6/8/83)	56,875	– 1,178	– 2,338

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/8/83)	501,744	– 3,314	+12,908
New York City (6/8/83)	115,166	– 2,779	+ 2,469

Financial Markets

	Friday 6/24/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.32%	+ .22	– 4.28
180-Day Bills†	9.59	+ .19	– 4.69
Longest Bills†	9.81	+ .16	– 4.65
Recent Issues:			
10s 6/30/85 (When Issued)	10.35	+ .20	
10 1/2s 6/30/87 (When Issued)	10.57	NA	
10 1/8s 5/15/93	10.96	+ .21	
10 3/8s 11/15/12	11.01	+ .23	
Municipals:			
Bond Buyer–20 Bond Index* (6/23/83)	9.38%	0.00	– 3.24
Blue List Total ($ Million)	$1,104	+ $102	+ $ 133
30-Day Visible Supply ($ Million)	$1,092	– $192	– $1,184
Total	$2,196	– $ 90	– $1,051
Corporates:			
Moody's Aa Composite (6/23/83)	12.11%	+ .03	– 3.48
30-Day Visible Supply ($ Million)	$ 777	+$ 102	– $ 588
Stocks:			
Dow-Jones Averages:			
Industrials	1,241.69	– .50	+ 438.61
Transportation	589.29	+ 8.17	+ 273.94
Utilities	128.41	– .65	+ 21.84
65 Stocks	494.73	+ 1.74	+ 182.00
Standard and Poor's 500 Stocks	170.40	+ 1.27	+ 61.26
N.Y.S.E. Composite Index	98.82	+ .82	+ 36.10
N.Y.S.E. Avg. Daily Vol. for Week (000's)	93,590	– 6,542	+ 40,854

* 46% Taxable equivalent 17.37%.

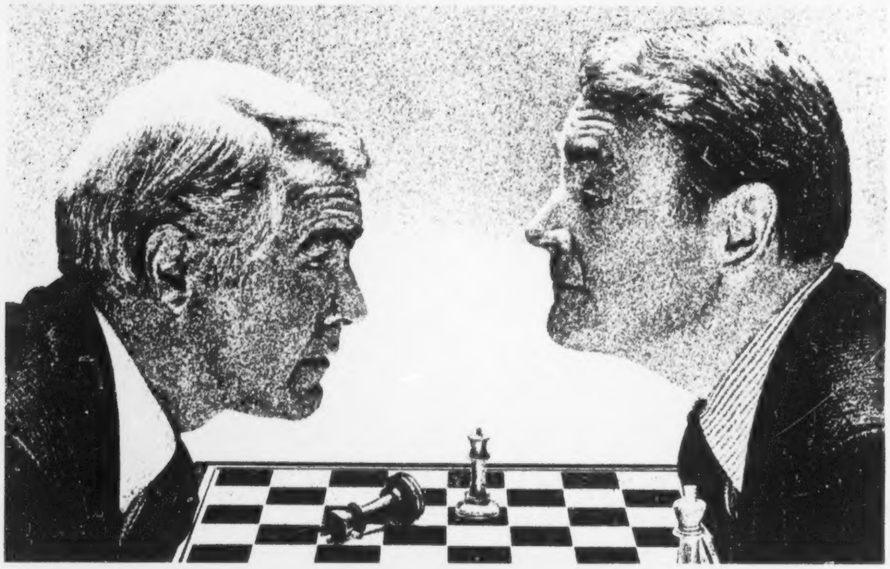
† Bond equivalent.

International Rates

	Friday 6/24/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.13%	9.00%
1 month	9.63	9.38
3 month	9.69	9.56
6 month	9.94	9.75
1 year	10.13	10.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.40%	11.30%
Long Term (7 to 15 yrs.)	11.45	11.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/24/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01980	50.51
Canada	.8123	1.2311
Denmark	.1104	9.0605
France	.1316	7.5965
Germany	.3960	2.5252
Italy	.0006680	1496.80
Japan	.004204	237.88
Mexico	.006711	149.00
Netherlands	.3537	2.8270
Switzerland	.4792	2.0868
U.K.	1.5462	.6467



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JULY 11, 1983

VOLUME XX, NUMBER 27

As The Recovery Proceeds . . .

Judging by the recent flurry of positive economic news, the U.S. economy rounded the midyear turn on a note of strength. With consumer spending leading the way, factory orders, industrial production and capacity utilization rates are all expanding briskly, while the rate of unemployment fell to ten per cent in June—its lowest level in almost a year. And, as with other post-World War II recoveries, the big twin engines of postwar economic growth, automobiles and housing, have so far registered the most vigorous rebounds.

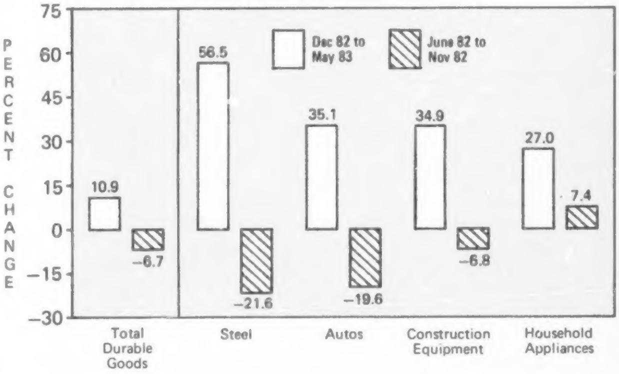
Take, for example, automobiles. With consumer confidence brightening and auto loan rates slumping, the nation's automakers reported that sales in June ran at a seasonally adjusted seven million unit annual rate. This was the best June number in four years and a 46 per cent improvement compared with June, 1982 levels. Sales have been so good, in fact, that some dealers are now complaining that they are running out of several of the most popular models, the type of problem they have not faced for years. What is more, as sales have turned sharply higher, auto production has revived. Auto assemblies ran at a 6.8 million unit, seasonally adjusted annual rate in June, 35 per cent higher than production levels of just six months ago.

So, too, better economic prospects, lower mortgage interest rates and good weather have given a good-sized boost to the housing industry. In May, homebuilders enjoyed their busiest month in over three years. Housing starts ran at a seasonally adjusted 1.8 million unit annual rate during the month, an almost 20 per cent jump compared with April, and a hefty 75 per cent higher than May, 1982 levels. What is more, building permits—a harbinger of future construction activity—increased again in May, assuring further momentum to the housing upturn. Nor are the houses sitting idle for long once they are completed. With mortgage interest rates standing at a three-year low in May, sales of new single-family homes reached a three-year high, reducing the inventory of unsold new homes to just a five month supply—its lowest level since March, 1977.

. . . Its Benefits Spread . . .

With signs of recovery widespread, it is hardly surprising that business confidence, as well as consumer confidence, has brightened. According to the Conference Board, business confidence in the second quarter reached its highest point in the seven year history of their survey. Another survey, this one of purchasing managers for 250 industrial companies yields similar results. The purchasing managers reported that new orders, production and employment all increased in June at a faster clip than in May. They also reported that deliveries from suppliers slowed for the fifth month in a row, indicating that order backlogs are growing.

NEW FACTORY ORDERS: TOTAL DURABLE GOODS AND SELECTED INDUSTRIES
(FIVE MONTH PERCENT CHANGES)



Indeed, the robust upturn in new factory orders is one of the clearest signs yet that the recovery is solidly on track—and may stay there for quite some time. After falling almost nonstop since the onset of the recession in 1981, the value of new factory orders has recently turned around, with hardgoods orders alone rising by more than ten per cent during the last five months. Not only has the strong upturn in both the auto and housing industries boosted new orders for automotive equipment and household appliances, but other major industries have shared in the economic rebound as well including lumber, steel, construction equipment and electrical machinery (see chart).

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As utilization rates increase, even business spending for new plant and equipment may revive sooner than anticipated. Although new orders for nondefense capital goods, a key barometer of future plant and equipment spending, slipped two per cent in May month-over-month, increased factory orders are already feeding back into the important machine tool industry. New orders for machine tools rose 14 per cent in May compared with April levels, pushing the value of machine tool orders 28 per cent higher than in May, 1982. This was the first time in over three years that this industry's new orders surpassed their year-ago levels.

Furthermore, the pace at which businesses are awarding new construction contracts is accelerating. The F.W. Dodge survey reported that the value of contracts for new construction soared to $18.9 billion in May—an all-time, dollar high. To be sure, residential construction is soaring, but nonresidential construction appears to be strengthening as well. Awards of nonresidential contracts posted a seasonally adjusted ten per cent annual rate gain in May, as spending on such commercial and industrial buildings as stores, warehouses, offices and factories surged.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/29/83	$ Change Since	
Reserve Bank Credit		Week Ago	Year Ago
U.S. Gov'ts and Agencies			
Owned Outright & RPs	150.505	− .859	+11.045
Loans to Depository Inst.	2.102	+ .387	+ .486
Float	1.706	+ .024	+ .031
Total Reserve Bank Credit	162.821	− .511	+11.043
Treasury Deposits with Federal Reserve Banks	3.858	+ .020	+ .718
Currency Outside Banks	142.039	− .646	+11.790
Member Bank Reserves:			
Required	38.566	− .028	− 1.238
Excess (Deficiency)	.592	+ .074	+ .064
Total Reserves Held	39.158	+ .046	− 1.174
Net Borrowed Reserves	.105	+ .094	− .622
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.758	+ 2.091	+14.636

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1	508.3	+ 11.2‡	+ 12.9‡
M2 (May '83)	2,097.3	+ 9.1	+ 13.3
M3 (May '83)	2,477.6	+ 7.7	+ 10.6
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/8/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.85%	9.05%	9.10%
* Federal Agencies	9.00	9.60	10.00
* Project Notes–Taxfree (46% Taxable Equivalent)	8.33	8.98	11.11
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.60	9.95	10.50

‡ Finance Company Paper–Prime	
5- 14 days	9.13%
15- 29 days	9.13
30- 59 days	9.13
60- 89 days	9.13
90-179 days	9.13
180-239 days	9.13
240-270 days	9.13

‡* Bankers' Acceptances	
Jul.	9.25%
Aug.	9.25
Sep.	9.30
Oct.	9.40
Nov.	9.45
Dec.	9.45

‡ Industrial Paper–Prime	
30- 89 days	9.13%
90-120 days	9.13

† Federal Funds Effective Rate 9.10%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'83	$ 3,171	$ 3,108	$ 2,996
Gross National Product (1972 Dollars)*	1st Q'83	$ 1,487	$ 1,477	$ 1,471
Percent Change, Annual Rate	1st Q'83	2.6	− 1.1	− 5.1
Change in Consumer Prices (new series)*	May '83	6.0%	7.2%	12.0%
Change in Producer Prices*	May '83	3.6%	− 1.2%	0.0%
Civilian Employment (Thousands of Persons) †	Jun '83n	100,786	99,557	99,681
Unemployment as % of Civilian Labor Force †	Jun '83n	10.0%	10.1%	9.5%
Personal Income*	May '83	$ 2,711	$ 2,679	$ 2,556
Leading Indicators Composite Index (1967=100) †	May '83n	154.5	152.6r	136.2
Industrial Production Index (1967=100) †	May '83	144.3	142.7	139.2
Net Change in Consumer Installment Credit †	Apr '83	$ 2.27	$ 2.58	$ 1.62
U.S. Merchandise Trade Balance †	May '83n	−$ 6.91	−$ 4.60	−$ 3.30
Plant and Equipment Expenditures*	3rd Q'83	$306.83(a)	$302.23(a)	$315.79
Private Housing Starts (Thousands of Units)*	May '83	1,791	1,504	1,028
New Construction Expenditures*	May '83n	$ 253.0	$ 245.6r	$ 228.7
Total Business Inventories †	Apr '83	$ 505.6	$ 503.2	$ 523.4
Total Business Sales †	Apr '83	$ 350.6	$ 348.0	$ 344.9

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

. . . Even To The Steel Industry

But while the upturn in business activity spells good news for almost all industries, it certainly comes none too soon for the hard-hit steel industry. Battered by severe recession, rising imports and mounting financial losses, the steel industry suffered its worst year in 1982 since the Great Depression. However, this year should be different. Already, as a result of increased demand from such industries as autos and household appliances, the steel industry is beginning to experience a modest revival. New orders for steel mill products have surged 56.5 per cent since the turn of the year, output has increased virtually nonstop and capacity utilization rates have just about doubled—from a post-Depression low of 30 per cent in December, to 55 per cent today.

But shipments to the capital goods industries, which usually consume about two-thirds of domestic steel, have yet to improve. In the first five months of 1983, shipments of steel to manufacturers of tools, machinery and industrial equipment were still running 37 per cent below the levels of the same period a year ago, shipments to the agricultural machinery sector were down 27 per cent and shipments to the oil and gas industry had dropped 82 per cent.

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/22/83)	95,700	+ 1,860	–39,524
New York City (6/22/83)	22,083	+ 22	–11,044
Commercial Paper (6/22/83)	173,921	+ 3,553	– 6,623*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/22/83)	214,197	+ 633	+ 4,925
New York City (6/22/83)	58,258	+ 529	– 603

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/22/83)	501,538	– 3,034	+13,385
New York City (6/22/83)	115,514	– 1,779	+ 2,618

Financial Markets

	Friday 7/8/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.40%	+ .47	– 2.35
180-Day Bills†	9.80	+ .43	– 2.80
Longest Bills†	10.10	+ .48	– 2.90
Recent Issues:			
10s 6/30/85	10.57	+ .38	
10½s 6/30/87	10.98	+ .38	
10⅛s 5/15/93	11.25	+ .33	
10⅜s 11/15/12	11.30	+ .32	
Municipals:			
Bond Buyer–20 Bond Index* (7/7/83)	9.55%	+ .19	– 2.92
Blue List Total ($ Million)	$1,021	– $ 35	+ $197
30-Day Visible Supply ($ Million)	$1,812	+ $144	+ $102
Total	$2,833	+ $109	+ $299
Corporates:			
Moody's Aa Composite (7/7/83)	12.28%	+ .12	– 3.16
30-Day Visible Supply ($ Million)	$366	– $ 20	$1,059
Stocks:			
Dow-Jones Averages:			
Industrials	1,207.23	– 18.03	+ 393.11
Transportation	575.28	– 11.33	+ 254.69
Utilities	129.29	+ .37	+ 22.47
65 Stocks	483.90	– 6.81	+ 167.20
Standard and Poor's 500 Stocks	167.80	– 1.11	+ 58.97
N.Y.S.E. Composite Index	96.89	– 1.02	+ 34.35
N.Y.S.E. Avg. Daily Vol. for Week (000's)	79,215	+ 4,197	+ 26,299

* 46% Taxable equivalent 17.69%.

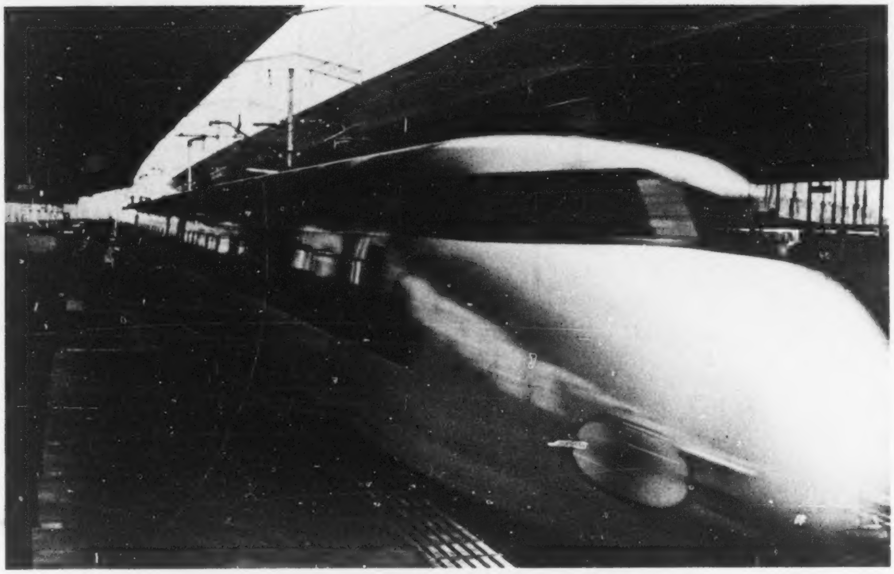
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/8/83	Week Ago
Overnight	9.00%	9.50%
1 month	9.75	9.44
3 month	10.06	9.63
6 month	10.38	9.88
1 year	10.50	10.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.60%	11.40%
Long Term (7 to 15 yrs.)	11.60	11.45

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/8/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01939	51.56
Canada	.8124	1.2309
Denmark	.1083	9.2360
France	.1294	7.7265
Germany	.3887	2.5725
Italy	.0006568	1522.50
Japan	.004159	240.43
Mexico	.006711	149.00
Netherlands	.3473	2.8790
Switzerland	.4706	2.1248
U.K.	1.5405	.6491



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7/26/83

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JULY 25, 1983 VOLUME XX, NUMBER 28

A Balanced Monetary Policy . . .

Last week's testimony by Federal Reserve Chairman Paul A. Volcker before various Congressional forums should be welcomed by the financial markets, as well as just about everyone else. For in recognition of the need to keep both the domestic and global business recoveries solidly on track, Mr. Volcker emphasized that not only has the restraint applied to date been modest, but it is now being accompanied by a lifting of the M1 money supply growth targets for the remainder of this year. This combination of restraint and generosity seems to have set the stage for within-target money growth—and, hopefully, lower interest rates.

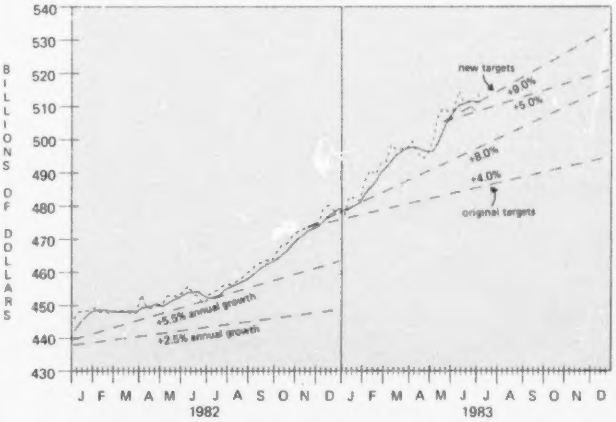
According to Chairman Volcker, the decision to lift 1983's M1 growth targets was taken at the mid-July meeting of the policy-setting Federal Open Market Committee. To be sure, this action became almost a necessity in light of the emerging pace of business activity and trends in the money supply. Take the economy, for example. Although more than one third of the second quarter's 8.7 per cent real GNP gain (seasonally adjusted annual rate) was due to a slowing of inventory liquidation, several other signs indicate that the recovery's strong momentum was more fundamental in nature. Auto sales in June ran at their fastest clip in almost two years, housing starts remained at lofty levels and factory orders, industrial production and capacity utilization rates are all rising nicely.

But while this may have been good news for the economy, its effects on the credit markets are much less clear. Household credit demands, fueled by a steep upturn in housing- and auto-related borrowings, have begun to advance briskly compared with year-earlier levels, while an upturn in business borrowings may develop once inventory liquidation comes to an end. And with little or no progress being made in paring Washington's credit needs, any vigorous snapback in private credit demands can only hasten the long-anticipated clash between public and private borrowings. So if today's more rapid-than-anticipated economic growth was to be sustained, it had to be accompanied by monetary policy accommodation somewhat more generous than originally planned.

. . . Sets The Stage . . .

Complicating the Fed's job is the fact that the financial markets remain mesmerized by the money supply numbers. With the robust pace of business activity swelling its transactions components, and deposit innovation affecting its interest-sensitive components, M1 has been, to say the least, difficult to tame. It expanded at a hefty 16 per cent seasonally adjusted annual rate over the past eight weeks and, by the first week in July, stood a sizable $16.5 billion above its eight per cent upper growth target boundary—prompting the markets to mark up interest rates in anticipation of a tighter monetary policy.

MONEY SUPPLY, M1
FOUR-WEEK MOVING AVERAGE (LINE) VS. WEEKLY FIGURES (DOT)



For the Federal Reserve, however, the question of what to do about the M1 money supply was somewhat more complex. It had to balance the requirements of keeping the recovery on track, against the need to maintain its inflation-fighting credibility. Nor was the appropriate policy response all that clear, since no one is really sure whether or not trends in M1 are any longer reliable guides to future business and price developments.

The Fed thus found itself confronting a mid-summer's dilemma—with policy options ranging from vigorous restraint to doing nothing. But since restraint sufficient to eliminate the nagging M1 money bulge would probably derail recovery, and

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doing nothing could rekindle inflation expectations, the Fed did the next best thing—it chose a middle course. A discreet tightening of the monetary reins was initiated—one which first got underway last spring. This included scaling back the provision of nonborrowed reserves to the banking system, a slightly higher Federal funds rate and the tolerance of modest increases in all other interest rates. The advantage of this approach is that while it maintained the Fed's inflation-fighting credibility, it presented little risk to both the U.S. and international economic recoveries.

To be sure, these steps will probably slow the above-target money growth, but the question remained what to do about the existing money supply bulge. In recognition of the fact that M1 has been distorted for some time by a variety of technical and regulatory changes, the Fed decided that it would be more expedient to move the money supply targets closer to the money supply, rather than the other way around—something of the monetary policy equivalent of the old saying, "If the mountain won't come to Mohammed, Mohammed will go to the mountain."

As a result, M1 was rebased, more generous growth targets were set for the remainder of this year and the existing M1 money growth targets were scrapped. And, as shown in the chart, in one bold stroke, the central bank virtually eliminated the existing M1 bulge; as of the first week in July, M1 stood only $2.7 billion above the Fed's revised, nine per cent upper target limit.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/13/83	$ Change Since	
Reserve Bank Credit		Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	152.049	− .106	+11.251
Loans to Depository Inst.	1.147	− 1.088	+ .588
Float	2.644	+ .508	− .222
Total Reserve Bank Credit	164.476	− .658	+11.416
Treasury Deposits with Federal Reserve Banks	4.498	+ .044	+ 1.149
Currency Outside Banks	144.532	+ .524	+11.847
Member Bank Reserves:			
Required	37.245	− .827	− 1.681
Excess (Deficiency)	.450	− .428	+ .266
Total Reserves Held	37.695	− 1.255	− 1.415
Net Borrowed Reserves	.119	+ .008	+ .045
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.711	+ .762	+13.986

		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M1	514.6	+ 11.8‡	+ 13.2‡
M2 (June '83)	2,115.2	+ 8.8	+ 13.4
M3 (June '83)	2,498.9	+ 8.5	+ 10.6
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 7/22/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.60%	8.80%	9.00%
* Federal Agencies	9.50	9.75	10.25
* Project Notes—Taxfree (46% Taxable Equivalent)	8.43	8.80	10.65
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.55	10.00	10.50

‡Finance Company Paper—Prime	
5- 14 days	9.00%
15- 29 days	9.13
30- 59 days	9.25
60- 89 days	9.25
90-179 days	9.25
180-239 days	9.25
240-270 days	9.25

‡* Bankers' Acceptances	
Aug.	9.25%
Sep.	9.30
Oct.	9.35
Nov.	9.40
Dec.	9.50
Jan.	9.45

‡Industrial Paper—Prime	
30- 89 days	9.13%
90-120 days	9.25

†Federal Funds	
Effective Rate	9.50%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83n	$ 3,274	$ 3,172r	$ 3,070r
Gross National Product (1972 Dollars)*	2nd Q'83n	$ 1,521	$ 1,490r	$ 1,489r
Percent Change, Annual Rate	2nd Q'83n	8.7	2.6r	0.9r
Change in Consumer Prices (new series)*	Jun '83n	2.4%	6.0%	13.2%
Change in Producer Prices*	Jun '83n	6.0%	3.6%	12.0%
Civilian Employment (Thousands of Persons)†	Jun '83	100,786	99,557	99,681
Unemployment as % of Civilian Labor Force†	Jun '83	10.0%	10.1%	9.5%
Personal Income*	Jun '83n	$ 2,734	$ 2,721r	$ 2,573r
Leading Indicators Composite Index (1967=100)†	May '83	154.5	152.6	136.2
Industrial Production Index (1967=100) †	Jun '83n	145.9	144.3	138.7
Net Change in Consumer Installment Credit †	May '83n	$ 2.70	$ 2.27	$ 1.84
U.S. Merchandise Trade Balance †	May '83	−$ 6.91	−$ 4.60	−$ 3.30
Plant and Equipment Expenditures*	3rd Q'83	$306.83(a)	$302.23(a)	$315.79
Private Housing Starts (Thousands of Units)*	Jun '83n	1,747	1,799r	910
New Construction Expenditures*	May '83	$ 253.0	$ 245.6	$ 230.9r
Total Business Inventories †	May '83n	$ 506.5	$ 504.8r	$ 519.1
Total Business Sales †	May '83n	$ 363.1	$ 351.4r	$ 353.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

. . . For Lower Interest Rates

Thus, as Chairman Volcker appeared before Congress, he was well positioned to mollify conservatives and liberals, monetarists and Keynesians. To those urging restraint, the Fed Chairman could point to recent trends in nonborrowed reserves—the building blocks of the money supply. During the past 13 weeks, nonborrowed reserves have contracted at a five per cent seasonally adjusted annual rate, a sharp turnaround from the nine per cent seasonally adjusted annual rate expansion posted during the immediately preceding 13 weeks. To those urging additional policy accommodation, Chairman Volcker could point to the more generous M1 growth targets—as well as the "forgiveness" of the huge money bulge which had developed during the first half of the year. With the bulge now incorporated into the target's base, aggressive restraint would clearly not be needed to eliminate it.

What does it all mean—this combination of restraint and generosity? For one thing, with money supply growth likely to be within target fairly soon as a result of steps already taken, interest rates should drift lower in coming weeks. This is because as fears of a Fed tightening in response to above-target money growth recede, some of the recent financial market turbulence will evaporate. But, perhaps most important, the central bank has bought more time for the recovery to proceed—and, of course, for the Federal government to put its financial house in order.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/6/83)	95,777	− 917	−42,361
New York City (7/6/83)	22,356	+ 191	−12,683
Commercial Paper (7/6/83)	170,216	− 3,401	+11,598*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/6/83)	215,047	+ 1,717	+ 1,975
New York City (7/6/83)	58,458	+ 1,216	− 1,913

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/6/83)	508,376	+ 2,310	+15,092
New York City (7/6/83)	118,693	+ 1,511	+ 3,561

Financial Markets

	Friday 7/22/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.52%	+ .08	− 1.20
180-Day Bills†	9.92	+ .01	− 1.88
Longest Bills†	10.30	+ .03	− 2.10
Recent Issues:			
10$^{5}/_{8}$s 7/31/85 (When Issued)	10.88	NA	
10$^{1}/_{2}$s 6/30/87	11.27	+ .10	
10$^{1}/_{8}$s 5/15/93	11.60	+ .15	
10$^{3}/_{8}$s 11/15/12	11.57	+ .17	
Municipals:			
Bond Buyer—20 Bond Index* (7/21/83)	9.44%	− .10	− 2.57
Blue List Total ($ Million)	$1,047	−$ 822	+ $265
30-Day Visible Supply ($ Million)	$2,895	+$1,236	+ $288
Total	$3,942	+$ 414	+ $553
Corporates:			
Moody's Aa Composite (7/21/83)	12.43%	0.00	− 2.53
30-Day Visible Supply ($ Million)	$ 420	−$ 96	− $715
Stocks:			
Dow-Jones Averages:			
Industrials	1,231.17	+ 38.86	+ 400.60
Transportation	579.06	+ 17.75	+ 260.71
Utilities	131.50	+ 1.29	+ 25.05
65 Stocks	491.41	+ 14.02	+ 471.89
Standard and Poor's 500 Stocks	168.89	+ 4.60	+ 57.72
N.Y.S.E. Composite Index	97.74	+ 2.46	+ 33.93
N.Y.S.E. Avg. Daily Vol. for Week (000's)	84,690	+15,202	+ 28,254

* 46% Taxable equivalent 17.48%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/22/83	Week Ago
Overnight	9.38%	9.25%
1 month	9.56	9.69
3 month	9.94	10.06
6 month	10.38	10.56
1 year	10.63	10.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.65%	11.70%
Long Term (7 to 15 yrs.)	11.65	11.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/22/83)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01931	51.78
Canada	.8106	1.2336
Denmark	.1074	9.3135
France	.1285	7.7845
Germany	.3865	2.5875
Italy	.0006532	1531.00
Japan	.004167	239.98
Mexico	.006711	149.00
Netherlands	.3455	2.8945
Switzerland	.4760	2.1008
U.K.	1.5240	.6562

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, AUGUST 8. 1983 VOLUME XX, NUMBER 29

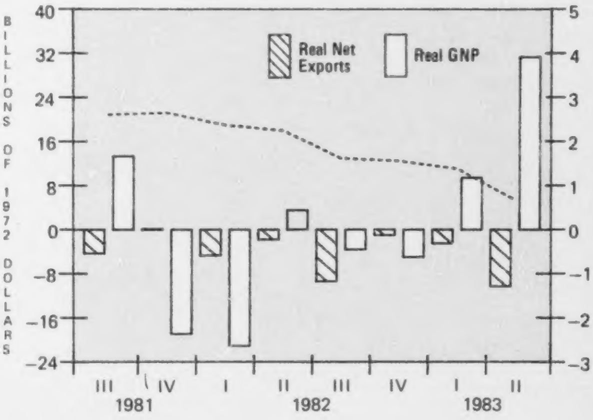
More Funds For The IMF . . .

Last week's vote by the House of Representatives to increase the U.S. contribution to the International Monetary Fund (IMF) will have wider effects than may appear at first glance. In addition to paving the way toward an easing of the external debt service problems of several developing countries (LDCs), an increase in the IMF's resources, and the private funds which they will attract, should help to reverse the downward momentum of world trade. Not only has the global recession reduced LDC exports to the industrial nations, but the diversion of much of their available foreign exchange to debt service by the LDCs has caused their imports to plummet as well. For example, in the 12-month period ending April, 1983, Mexico's total imports were an astonishing 56 per cent below the preceding 12-month period, while Brazil's imports were off by about 14 per cent.

U.S. exports have been particularly hard-hit as a result of the world recession, the strong dollar and the decline in trade-related lending. Between 1970 and 1980, the percentage of gross national product going into U.S. exports about doubled from 4.4 per cent to 8.4 per cent. Last year, however, U.S. merchandise exports fell in value for the first time in almost 25 years. But in spite of the sharp drop, exports were still about seven per cent of GNP. Although our merchandise exports to all overseas areas have fallen sharply in the last 14 months, U.S. exports to the LDCs, particularly those in Latin America, have suffered the most. In 1982, U.S. merchandise exports to the non-oil LDCs, which had reached $74 billion (32 per cent of total U.S. exports) in 1981, had declined to $65 billion; in the first five months of this year they slipped further, to an annual rate of $58 billion—22 per cent below the 1981 level. In the same period, U.S. exports to Mexico, our third largest trading partner in terms of both imports and exports, plummeted by about 52 per cent, while U.S. exports to Brazil had fallen over 39 per cent. By contrast, U.S. exports as a whole are now running 15 per cent below the 1981 level.

During the recent U.S. recession which ran from the middle of 1981 to the end of 1982, U.S. real GNP fell by almost $32 billion. In the same period, U.S. real net exports dropped almost $21 billion—contributing two thirds of the decline (see chart). From the end of the fourth quarter of 1982 to the end of this year's second quarter, however, U.S. real GNP rose by $41 billion, while at the same time U.S. net real exports fell a further $13 billion. Clearly, U.S. exports are not contributing to the present recovery.

QUARTERLY DOLLAR CHANGES IN REAL NET EXPORTS
AND REAL GNP (BARS) VS.
REAL NET EXPORTS AS A PERCENT OF REAL GNP (LINE)



. . . Will Help World Trade . . .

The impact of the decline in U.S. exports is widespread throughout the U.S. economy. In recent years, about 20 per cent of U.S. industrial production and about 40 per cent of agricultural production have been exported. Further, about one worker in 12 (including about 24 per cent of agricultural workers) is directly or indirectly dependent on exports for his job. In 1980, over six million U.S. jobs were directly related to exports. But as export volume dropped, the number of export-related jobs dropped to five million, contributing some 40 per cent to the rise in U.S. unemployment from 1980 through 1982. According to the Commerce Department, each $1 billion of U.S. exports generates over 25,000 jobs. On this basis, the decline in U.S. exports to Mexico between 1981 and 1982 probably

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cost the U.S. economy 150,000 jobs with another 50,000 lost because of falling exports to Argentina and Brazil. Overall, the loss of some 525,000 jobs can be attributed to the drop in U.S. exports in 1982 alone.

Some of the industries most adversely affected by the decline in merchandise exports to the LDCs are industries already hard-hit by the recession in other developed countries, intensive foreign competition and, to some degree, technological obsolescence. For example, in 1982 exports of automotive vehicles and parts to the 11 principal Latin American countries (including Argentina, Brazil and Mexico) amounted to $2.3 billion, down 33 per cent from the previous year. In the first five months of this year, automotive exports to these countries were down a further 42 per cent to an annual rate of $1.3 billion. Nonelectrical machinery including industrial machinery, construction and oil drilling equipment, which is the largest single category of merchandise exports to Latin America, is now being exported at about half of last year's rate. Wheat exports to the 11 largest Latin American countries are also running about 24 per cent below last year in spite of the fact that agricultural exports are considered to be less compressible than manufactured goods. U.S. exports of consumer goods to

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/27/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	152.776	− 1.721	+11.566
Loans to Depository Inst.	1.389	+ .156	+ .841
Float	1.569	− .015	− .185
Total Reserve Bank Credit	164.426	− 1.781	+11.847
Treasury Deposits with Federal Reserve Banks	4.517	+ 1.208	+ 1.159
Currency Outside Banks	142.562	− 2.374	+11.658
Member Bank Reserves:			
Required	38.891	− .623	− 1.166
Excess (Deficiency)	.369	+ .064	+ .058
Total Reserves Held	39.260	− .559	− 1.108
Net Borrowed Reserves	.353	+ .064	+ .328
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.874	+ .212	+16.023
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1	517.3	+ 15.5‡	+ 13.4‡
M2 (June '83)	2,114.6	+ 8.6	+ 13.4
M3 (June '83)	2,498.8	+ 8.5	+ 10.6
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/5/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.00%	9.60%	9.30%
* Federal Agencies	9.65	9.88	10.17
* Project Notes—Taxfree (46% Taxable Equivalent)	8.50	10.28	11.02
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.90	10.45	11.15

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.25%	Sep.	9.55%
15- 29 days	9.50	Oct.	9.60
30- 59 days	9.50	Nov.	9.75
60- 89 days	9.63	Dec.	9.85
90-179 days	9.63	Jan.	9.95
180-239 days	9.63	Feb.	10.00
240-270 days	9.63		

‡ Industrial Paper—Prime		† Federal Funds	
30- 89 days	9.60%	Effective Rate	9.60%
90-120 days	9.65		

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,274	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,521	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	8.7	2.6	0.9
Change in Consumer Prices (new series)*	Jun '83	2.4%	6.0%	13.2%
Change in Producer Prices*	Jun '83	6.0%	3.6%	12.0%
Civilian Employment (Thousands of Persons) †	Jul '83n	101,285	100,786	99,588
Unemployment as % of Civilian Labor Force †	Jul '83n	9.5%	10.0%	9.8%
Personal Income*	Jun '83	$ 2,734	$ 2,721	$ 2,573
Leading Indicators Composite Index (1967=100) †	Jun '83n	155.9	154.3r	135.5
Industrial Production Index (1967=100) †	Jun '83	145.9	144.3	138.7
Net Change in Consumer Installment Credit †	May '83	$ 2.70	$ 2.27	$ 1.84
U.S. Merchandise Trade Balance †	Jun '83n	−$ 4.96	−$ 6.91	−$ 3.31
Plant and Equipment Expenditures*	3rd Q'83	$306.83(a)	$302.23(a)	$315.79
Private Housing Starts (Thousands of Units)*	Jun '83	1,747	1,799	910
New Construction Expenditures*	Jun '83n	$ 259.7	$ 253.2r	$ 233.4
Total Business Inventories †	May '83	$ 506.5	$ 504.8	$ 519.1
Total Business Sales †	May '83	$ 363.1	$ 351.4	$ 353.1

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

the major Latin American nations have also suffered. For example, shipments abroad of household appliances are now running 43 per cent below last year's level and a hefty 77 per cent below 1981.

. . . And Create More U.S. Jobs

It would therefore seem that, once the IMF funding bill is passed by the Congress and signed by the President, the beneficial effects of an improving financial environment for the high-debt LDCs will be widespread. Not only will the anxieties on the part of both borrowers and lenders about servicing existing debt be ameliorated to a substantial degree, but the resulting increased access to additional financing from private sources will allow essential exports to the LDCs to rise. In particular, capital goods, which make up a substantial portion of U.S. exports and which are essential for the LDCs in order for them to increase their export capabilities, should benefit—adding jobs in the U.S. economy. Because exports are the principal means of earning foreign exchange for the LDCs, for any solution to their external debt repayment difficulties to be viable, it must include a revitalization of world trade. The $8.4 billion U.S. contribution to the IMF, which is 20 per cent of the total $43 billion package agreed to by IMF members early this year, will allow for increased trade-related financing.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/20/83)	93,965	– 572	–48,740
New York City (7/20/83)	22,095	– 112	–13,234
Commercial Paper (7/20/83)	173,404	+ 971	– 9,368*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/20/83)	214,395	+ 147	+ 3,252
New York City (7/20/83)	58,494	– 267	– 974

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/20/83)	504,890	+ 561	+13,284
New York City (7/20/83)	116,796	– 94	+ 3,307

Financial Markets

	Friday 8/5/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.75%	+ .15	– .97
180-Day Bills†	10.20	+ .10	– 1.73
Longest Bills†	10.65	+ .15	– .86
Recent Issues:			
$10^{5}/8$s 7/31/85	11.20	+ .15	
$10^{1}/2$s 6/30/87	11.65	+ .15	
$10^{1}/8$s 5/15/93	12.10	+ .35	
12s 8/15/13 (When Issued)	12.10	NA	
Municipals:			
Bond Buyer–20 Bond Index* (8/4/83)	9.74%	+ .14	– 2.13
Blue List Total ($ Million)	$1,191	+ $ 19	+ $ 278
30-Day Visible Supply ($ Million)	$3,043	– $ 25	+ $ 753
Total	$4,234	– $ 6	+ $1,031
Corporates:			
Moody's Aa Composite (8/4/83)	12.84%	+ .31	– 2.05
30-Day Visible Supply ($ Million)	$ 655	– $100	– $ 745
Stocks:			
Dow-Jones Averages:			
Industrials	1,183.29	– 15.93	+ 398.95
Transportation	542.43	– 8.34	+ 245.37
Utilities	129.09	– .68	+ 24.58
65 Stocks	469.92	– 6.09	+ 167.37
Standard and Poor's 500 Stocks	161.74	– .82	+ 58.03
N.Y.S.E. Composite Index	93.60	– .67	+ 33.91
N.Y.S.E. Avg. Daily Vol. for Week (000's)	80,238	– 7,342	+ 25,984

* 46% Taxable equivalent 18.04%.

† Bond equivalent.

International Rates

	Friday 8/5/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.56%	9.38%
1 month	9.94	9.75
3 month	10.50	10.13
6 month	10.88	10.63
1 year	11.13	10.82
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.25%	11.75%
Long Term (7 to 15 yrs.)	12.00	11.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/5/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01858	53.82
Canada	.8098	1.2348
Denmark	.1036	9.6555
France	.1236	8.0880
Germany	.3722	2.6870
Italy	.0006269	1595.00
Japan	.004088	244.60
Mexico	.00670	149.25
Netherlands	.3331	3.0018
Switzerland	.4602	2.1730
U.K.	1.4800	.6757

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, AUGUST 22, 1983
VOLUME XX, NUMBER 30

The Backup In Mortgage Rates . . .

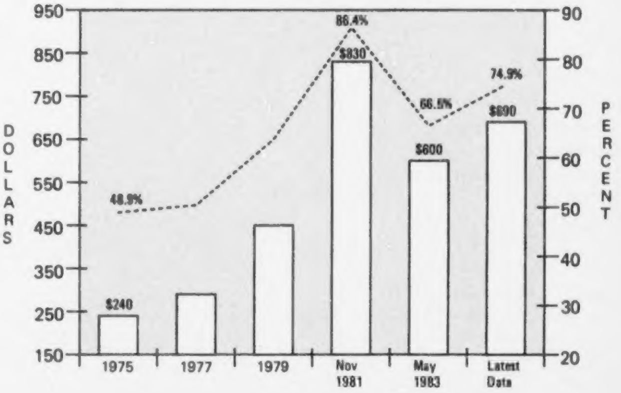
Despite signs of a strong rebound in the pace of business activity—including the largest monthly drop in the unemployment rate in almost 25 years in July and a 1.8 per cent jump in industrial production during the same month—one crack may have appeared in the wall of recovery. With mortgage interest rates backing up and some home prices firming, affordability has again become an obstacle to sustained recovery in the housing industry. The impact of swings in interest rates on people's ability to buy is greater for the purchase of a home than for any other outlay the average consumer makes. Thus, the recent upturn in mortgage rates may have halted the nascent housing boom.

The earlier housing recovery was clearly bolstered by a sharp decline in mortgage interest rates. They fell from a peak of 18.5 per cent in November, 1981, to about 12.5 per cent by May, 1983. And, with the median price of new single-family homes sold in November, 1981 at $71,200, nearly nine out of every ten households found themselves priced out of the new home market. This is because principal and interest payments on a 30-year conventional mortgage contracted at 18.5 per cent for a median-priced new home totaled about $830 a month (after assuming a 25 per cent downpayment), absorbing 52 per cent of gross median household income.

By contrast, with mortgage rates at 12.5 per cent in May, 1983, the monthly mortgage payment was reduced to about $600—despite the fact that by this time the median price of a new single-family home had reached $75,400. Taking into account the rule of thumb that monthly mortgage payments should not exceed one quarter of a household's monthly gross income, approximately one out of every three households was able to meet this requirement in May. Thus, the saving of $230 in monthly mortgage costs opened the door for nearly 17 million additional households to qualify for a mortgage.

Not surprisingly, with affordability enhanced, demand picked up, causing housing starts to jump to an annual rate of 1.8 million units in May—their highest level in 3½ years, and nearly double year-ago rates. So, too, sales of new and existing homes soared, while builders' inventories of unsold homes plunged. They fell to 5.1 months' supply—the lowest in seven years. With inventories lean, some builders reported problems they have not faced for years—shortages of building lots and of such construction materials as lumber, gypsum and roofing.

AVERAGE MONTHLY MORTGAGE PAYMENT (BAR) VS. % OF HOUSEHOLDS THAT ARE PRICED OUT OF NEW HOME MARKET (DOT)



. . . Slams The Door For Many Homebuyers . . .

Since May, however, mortgage rates have again begun to ratchet upward, reaching 14 per cent on conventional fixed-rate mortgages by early August. What is more, with new home prices rising, the 150 basis point backup in mortgage rates has already slammed the door on nearly seven million would-be homebuyers, as their gross annual income falls about $4,000 short of meeting affordability requirements. A fourteen per cent mortgage rate means that the monthly payment on a 30-year conventional mortgage for a median-priced new home of $77,200 amounts to $690, absorbing 38 per cent of gross median household income. When such costs as property taxes, insurance, utilities and maintenance are added to mortgage debt service, the proportion of gross median family income needed to service the cost of homeownership rises even higher. Only one out of every four households can now meet the financial conditions to qualify for a mortgage (see chart). As a result, new home sales eased 2.9 per cent in June and starts for the construction of

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single-family homes declined 11.9 per cent in July, following a drop of 3.1 per cent in June.

. . . While The Strong Dollar . . .

While the substantial appreciation of the dollar since late 1980 has slowed domestic economic growth by depressing exports while encouraging imports, it has often been said that at least consumers have benefited through lower import prices. So far, however, these benefits have not been as great as might be expected. Whereas the dollar has advanced by some 40 per cent since 1980 on a trade-weighted basis, import prices have fallen by only seven per cent.

Although several factors explain why import prices have not fully reflected the dollar's strong gains, one of the most important is the ongoing escalation of prices abroad. For not only has the United States suffered from inflation, but so, too, have our major trading partners. Almost without exception, they have experienced an annual rate of inflation in excess of five per cent since 1980. As a result, while the dollar was appreciating by more than ten per cent annually during the period, as much as one half of the U.S. price effect was erased by rising domestic prices in Europe and elsewhere.

While foreign inflation rates have limited the descent in import prices, so, too, have specific actions taken by foreign exporters to maintain the dollar value of their goods. These actions appear to have been most pronounced in the automobile industry—where foreign exporters evidently felt that lower prices would do little to enlarge their market share. This is partic-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/10/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	152.847	− .008	+11.942
Loans to Depository Inst.	1.520	+ .205	+ 1.151
Float	1.243	− .384	− 1.102
Total Reserve Bank Credit	164.238	− .034	+10.469
Treasury Deposits with Federal Reserve Banks	3.812	− .212	− .138
Currency Outside Banks	144.245	+ 1.054	+11.873
Member Bank Reserves:			
Required	37.695	− .753	− 1.467
Excess (Deficiency)	.490	− .099	+ .164
Total Reserves Held	38.185	− .852	− 1.303
Net Borrowed Reserves	.395	+ .306	+ .549
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.746	− 1.237	+14.925

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	516.9	+ 14.3‡	+ 13.3‡
M2 (July '83)	2,125.8	+ 9.9	+ 11.5
M3 (July '83)	2,509.9	+ 9.1	+ 8.9
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/19/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.30%	9.42%	9.45%
* Federal Agencies	9.90	10.00	10.65
* Project Notes—Taxfree (46% Taxable Equivalent)	8.98	9.54	11.20
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.80	10.05	10.65

‡ Finance Company Paper—Prime	
5- 14 days	9.13%
15- 29 days	9.13
30- 59 days	9.38
60- 89 days	9.50
90-179 days	9.50
180-239 days	9.50
240-270 days	9.50

‡* Bankers' Acceptances	
Sep.	9.60%
Oct.	9.60
Nov.	9.68
Dec.	9.75
Jan.	9.75
Feb.	9.65

‡ Industrial Paper—Prime	
30- 89 days	9.38%
90-120 days	9.45

† Federal Funds Effective Rate 9.45%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,270 r	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,523 r	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.2 r	2.6	0.9
Change in Consumer Prices (new series)*	Jun '83	2.4%	6.0%	13.2%
Change in Producer Prices*	Jul '83n	1.2%	6.0%	6.0%
Civilian Employment (Thousands of Persons) †	Jul '83	101,285	100,786	99,588
Unemployment as % of Civilian Labor Force †	Jul '83	9.5%	10.0%	9.8%
Personal Income*	Jul '83n	$ 2,751	$ 2,736 r	$ 2,590
Leading Indicators Composite Index (1967=100) †	Jun '83	155.9	154.3	135.5
Industrial Production Index (1967=100) †	Jul '83n	148.6	146.0 r	138.8
Net Change in Consumer Installment Credit †	Jun '83n	$ 4.41	$ 2.70	$ 2.02
U.S. Merchandise Trade Balance †	Jun '83	−$ 4.96	−$ 6.91	−$ 3.31
Plant and Equipment Expenditures*	3rd Q'83	$306.83(a)	$302.23(a)	$315.79
Private Housing Starts (Thousands of Units)*	Jul '83n	1,741	1,752 r	1,185
New Construction Expenditures*	Jun '83	$ 259.7	$ 253.2	$ 233.4
Total Business Inventories †	Jun '83n	$ 505.0	$ 505.7 r	$ 521.0
Total Business Sales †	Jun '83n	$ 371.6	$ 364.1 r	$ 349.7

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

ularly true of Japanese auto exporters, whose sales to the U.S. have been subject to a numerical quota.

. . . Has Provided Few Consumer Benefits

In addition, retail prices consist of many non-imported costs, such as those associated with distribution and marketing. Trends in these costs and such special considerations as the uniqueness of the product may separate import prices from the external value of the dollar. Take, for example, such a product as the Mercedes Benz 300-D. Possessing a special niche all of its own, its price has risen from around $24,000 in 1980 to nearly $31,000 currently—despite a more than 30 per cent appreciation of the dollar against the D-mark during the period. Although changes and improvements on this model may be partially responsible for the increase in price, there is no doubt that the special appeal of this car has insulated its dollar price from the decline in the value of the D-mark compared with the U.S. currency.

Some U.S. prices have responded to the strong dollar. Prices of such imported commodity-type goods as foods, beverages and industrial raw materials have fallen over the past few years. Here, substantial competition appears to have prompted foreign suppliers to mark down their prices as the dollar appreciated. Between 1981 and early 1983, the dollar prices of foods and beverages fell by 15 per cent, while those of industrial supplies declined by almost 12 per cent.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/3/83)	93,168	– 613	–53,072
New York City (8/3/83)	21,910	+ 125	–16,448
Commercial Paper (8/3/83)	172,173	– 755	– 8,085

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/3/83)	215,448	+ 2,207	+ 3,798
New York City (8/3/83)	59,498	+ 828	+ 87

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/3/83)	509,160	+ 4,545	+13,600
New York City (8/3/83)	119,185	+ 2,753	+ 2,518

Financial Markets

	Friday 8/19/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills[†]	9.59%	– .12	+ 2.34
180-Day Bills[†]	9.99	– .13	+ .94
Longest Bills[†]	10.28	– .25	+ .18
Recent Issues:			
$10^5/_8$s 7/31/85	10.76	– .33	
$10^1/_2$s 6/30/87	11.29	– .18	
$10^1/_8$s 5/15/93	11.62	– .15	
12s 8/15/13	11.64	– .09	
Municipals:			
Bond Buyer–20 Bond Index[*] (8/18/83)	9.70%	– .15	– 1.12
Blue List Total ($ Million)	$1,023	– $197	+ $278
30-Day Visible Supply ($ Million)	$2,283	+ $130	+ $490
Total	$3,306	– $ 67	+ $768
Corporates:			
Moody's Aa Composite (8/18/83)	12.70%	– .18	– 1.42
30-Day Visible Supply ($ Million)	$ 555	-0-	– $ 570
Stocks:			
Dow-Jones Averages:			
Industrials	1,194.21	+ 11.38	+ 324.92
Transportation	533.73	– 5.89	+ 209.69
Utilities	130.88	+ 2.94	+ 15.52
65 Stocks	471.11	+ 2.43	+ 137.46
Standard and Poor's 500 Stocks	163.98	+ 1.82	+ 50.96
N.Y.S.E. Composite Index	94.92	+ 1.08	+ 30.27
N.Y.S.E. Avg. Daily Vol. for Week (000's)	76,850	+ 4,054	– 14,322

[*] 46% Taxable equivalent 17.96%.

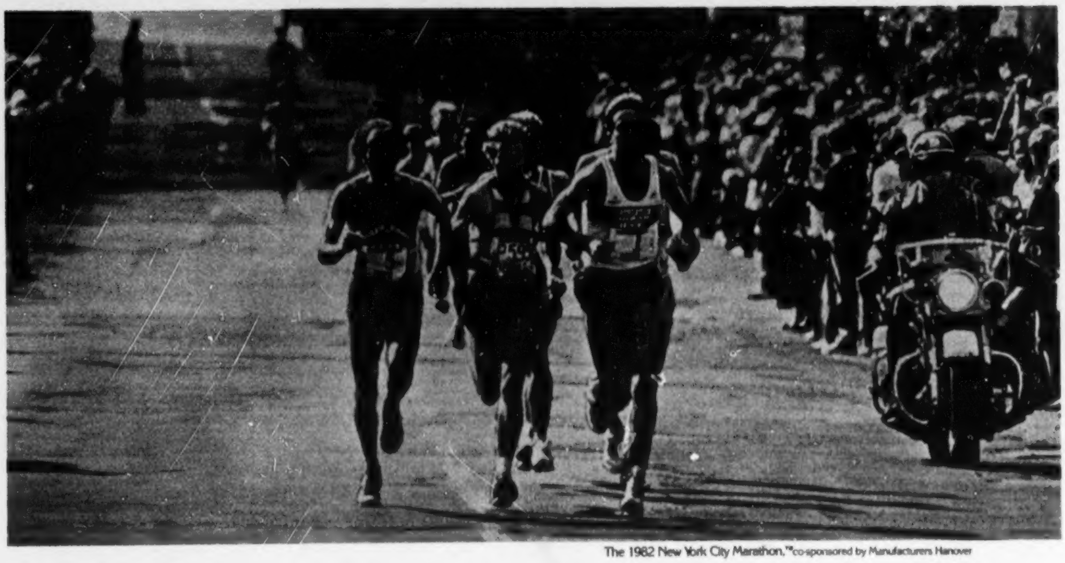
[†] Bond equivalent.

International Rates

	Friday 8/19/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.56%	9.63%
1 month	9.81	9.88
3 month	10.19	10.44
6 month	10.56	10.88
1 year	10.81	11.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.15%	12.35%
Long Term (7 to 15 yrs.)	12.00	12.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/19/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01882	53.13
Canada	.8102	1.2342
Denmark	.1046	9.5575
France	.1255	7.9700
Germany	.3773	2.6503
Italy	.0006333	1579.00
Japan	.004109	243.38
Mexico	.00669	149.50
Netherlands	.3372	2.9653
Switzerland	.4646	2.1522
U.K.	1.5193	.6582



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The Manufacturers Hanover Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, SEPTEMBER 2, 1983
VOLUME XX, NUMBER 31

The Business Recovery . . .

In spite of the ongoing business upturn, U.S. merchandise exports continue to reel from the combined impact of a surging dollar, slow recovery from recession in other industrial countries and the difficulty of many developing countries in financing imports. In July, U.S. exports fell by 2.2 per cent, contributing to the third largest monthly trade deficit on record—$6.4 billion. What is more, exports in July were eight per cent below the same month last year. Combined with rising imports (up 4.7 per cent in July), the plunge in overseas sales is expected to generate a merchandise trade deficit which may reach $70 billion this year (c.i.f., imports/f.a.s., exports basis), well above last year's $42.7 billion, the previous record.

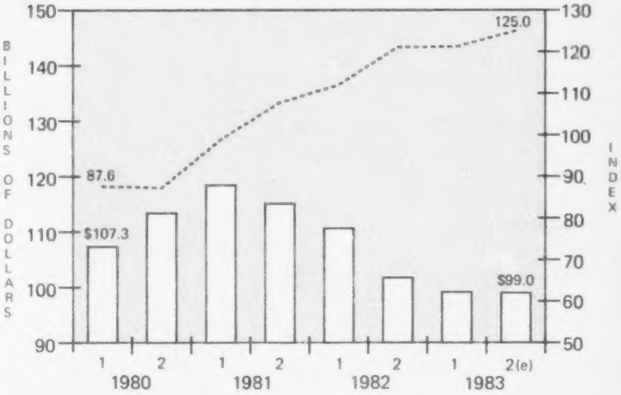
The decline in exports in July was not unexpected, especially since the prior month's exports were buoyed by a surge in commercial aircraft and agricultural export deliveries. Declines in chemical and fuel exports more than offset slight increases in exports of military goods, telecommunication equipment and some other export categories. In the first seven months of this year, merchandise exports were ten per cent below the same period last year and 16 per cent below the level for the same period in 1981.

Although the strength of the dollar against other major trading currencies has made U.S. products uncompetitive on a price basis, that is not the only reason for this country's poor export picture. Capital goods exports, for example, are often sold on such other criteria as performance and delivery schedules rather than on price. Hence, the strong dollar is not always an obstacle to exports. Nonetheless, as the chart clearly illustrates, the dollar's appreciation has been a major detriment to U.S. export performance. Between the first half of 1981 and the first half of 1983, the U.S. dollar appreciated by about 23 per cent on a trade-weighted basis, while U.S. merchandise exports fell by more than 16 per cent.

. . . Skips U.S. Exports . . .

The hesitant recovery in the other industrial countries has also retarded U.S. exports. Over 55 per cent of our exports go to these countries which are just beginning to emerge from the global recession. The 24 principal industrial countries are expected to show aggregate real growth of less than two per cent this year after a decline of 0.2 per cent in 1982. It may well be late this year or early 1984 before these countries' recoveries are well under way.

U.S. MERCHANDISE EXPORTS (BAR) VS.
TRADE WEIGHTED DOLLAR INDEX – MARCH 1973=100 (DOT)



The developing countries, which usually take close to 40 per cent of the exports of the United States, have also reduced their purchases. Several oil-producing nations have seen their trade surpluses evaporate due to both lower oil prices and recession-induced declines in global energy consumption. The non-oil developing countries, struggling with large external debts combined with high interest rates and their own falling exports, are compelled to dedicate a substantial part of their foreign exchange earnings to servicing their external obligations.

None of the causes of the decline in U.S. exports appears likely to change within the next few months, and there will be a lag before a weakening dollar or rising rates of real growth abroad will be reflected in an improving export picture. Further, as the economic recovery in the U.S. advances, rising imports will continue to exceed exports—widening our trade deficit.

. . . But Not Corporate Profits

Despite lackluster export prospects, much of the news from corporate America is extremely encour-

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aging. With the pace of business activity gathering an unanticipated momentum in the second quarter, so too, did the rebound in corporate profits—which posted their most impressive quarterly gain in nearly a decade. Indeed, the strong revival in corporate profits, together with sharp cutbacks in capital spending for inventories, plant and equipment, virtually ensure that business credit demands will remain soggy—postponing the long-anticipated clash between public and private borrowings. Nor is this situation expected to change anytime soon, auguring well for stable, if not lower interest rates.

According to the Commerce Department, before-tax corporate profits in the second quarter advanced by a sizable $30 billion quarter-over-quarter, or more than 17 per cent, to a seasonally adjusted $199 billion annual rate. Not only did this reverse a good chunk of the profits plunge which took place in 1982 but, with only one exception, it was the largest, quarter-over-quarter percentage rise in pre-tax profits in more than 30 years. What is more, after-tax earnings also soared during the April-June period, rising a hefty $16 billion to a seasonally adjusted $124 billion annual rate.

With cash flows bolstered by both rising earnings and more generous depreciation allowances, and with capital oulays scaled back, it is hardly surprising that business credit demands have faded. Short-term borrowings in particular have slumped, reflecting not only the sharp upturn in cash flow, but also the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/24/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	154.464	+ .128	+12.227
Loans to Depository Inst.	1.580	+ .102	+ .971
Float	1.393	+ .282	– .465
Total Reserve Bank Credit	164.971	– .139	+11.167
Treasury Deposits with Federal Reserve Banks	3.559	+ .249	+ .687
Currency Outside Banks	144.748	– .157	+11.901
Member Bank Reserves:			
Required	38.341	– .017	– 1.702
Excess (Deficiency)	.431	– .045	+ .171
Total Reserves Held	38.772	– .062	– 1.531
Net Borrowed Reserves	.418	+ .112	+ .281
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	108.983	– 1.137	+14.486

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	515.3	+ 8.3‡	+ 12.9‡
M2 (July '83)	2,125.4	+ 9.8	+ 13.0
M3 (July '83)	2,510.0	+ 9.1	+ 9.9
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 9/2/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.00%	9.30%	9.45%
* Federal Agencies	9.55	10.15	10.30
* Project Notes—Taxfree (46% Taxable Equivalent)	10.19	11.02	11.20
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.80	10.15	10.90

‡ Finance Company Paper—Prime	
5- 14 days	8.50%
15- 29 days	9.38
30- 59 days	9.38
60- 89 days	9.25
90-179 days	9.25
180-239 days	9.25
240-270 days	9.25

‡* Bankers' Acceptances	
Oct.	9.40%
Nov.	9.50
Dec.	9.55
Jan.	9.70
Feb.	9.70
Mar.	9.65

‡ Industrial Paper—Prime	
30- 89 days	9.38%
90-120 days	9.50

† Federal Funds	
Effective Rate	9.60%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,270	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,523	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.2	2.6	0.9
Change in Consumer Prices (new series)*	Jul '83n	4.8%	2.4%	7.2%
Change in Producer Prices*	Jul '83	1.2%	6.0%	6.0%
Civilian Employment (Thousands of Persons) †	Aug '83n	101,563	101,285	99,683
Unemployment as % of Civilian Labor Force †	Aug '83n	9.5%	9.5%	9.9%
Personal Income*	Jul '83	$ 2,751	$ 2,736	$ 2,530
Leading Indicators Composite Index (1967=100) †	Jul '83n	157.7	157.2r	136.2
Industrial Production Index (1967=100) †	Jul '83	148.6	146.0	138.8
Net Change in Consumer Installment Credit †	Jun '83	$ 4.41	$ 2.70	$ 2.02
U.S. Merchandise Trade Balance †	Jul '83n	–$ 6.36	–$ 4.96	–$ 2.70
Plant and Equipment Expenditures*	3rd Q'83	$306.83(a)	$302.23(a)	$315.79
Private Housing Starts (Thousands of Units)*	Jul '83	1,741	1,752r	1,185
New Construction Expenditures*	Jul '83n	$ 267.7	$ 263.1r	$ 230.8
Total Business Inventories †	Jun '83	$ 505.0	$ 505.7	$ 521.0
Total Business Sales †	Jun '83	$ 371.6	$ 364.1	$ 349.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

funding of short-term debt in the long-term bond markets. Since late last year, both commercial and industrial loans and nonfinancial company commercial paper outstanding have dropped, resulting in the first pronounced decline in the proportion of total corporate debt accounted for by short-term liabilities since 1976. And, in recent weeks, even the brisk pace of long-term debt offerings has moderated. With long-term interest rates backing up, the volume of new bond offerings has diminished. Whereas the new-issue, corporate bond calendar averaged about $4 billion monthly between January and July, total offerings slumped to a relatively paltry $1.6 billion in August.

Nor have businessmen neglected long-deteriorating equity positions in this round of corporate funding. Net new stock issues ran at an approximately $30 billion seasonally adjusted annual rate during the first half of 1983, accounting for more than one-third of all external funds raised by U.S. nonfinancial corporations. Not since 1975 has equity finance accounted for such a sizable proportion of business external finance. Indeed, it was a similar pattern of corporate finance in the mid-1970s—characterized by rapidly rising earnings, robust levels of equity finance and the pay down of short-term debt—which was largely responsible for the behavior of interest rates following the 1973-75 recession. At that time, short- and long-term rates continued to decline for almost two years after the trough of the business cycle.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/17/83)	94,528	+ 1,329	−54,064
New York City (8/17/83)	22,600	+ 528	−17,172
Commercial Paper (8/17/83)	174,280	− 685	− 7,749

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/17/83)	213,746	− 971	+ 1,971
New York City (8/17/83)	58,269	− 687	− 980

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/17/83)	508,893	+ 1,553	+13,882
New York City (8/17/83)	117,426	− 44	+ 1,243

Financial Markets

	Friday 9/2/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.65%	-0-	+ 1.11
180-Day Bills†	10.10	-0-	-0-
Longest Bills†	10.50	+ .10	− .39
Recent Issues:			
$10\frac{5}{8}$s 8/31/85	11.20	+ .20	
$10\frac{1}{2}$s 6/30/87	11.65	+ .25	
$11\frac{7}{8}$s 8/15/93	12.00	+ .30	
12s 8/15/13	12.00	+ .30	
Municipals:			
Bond Buyer—20 Bond Index* (9/1/83)	9.75%	+ .16	− .99
Blue List Total ($ Million)	$1,143.4	+$ 53.6	− $ 21.6
30-Day Visible Supply ($ Million)	$2,377.7	+$251.8	− 143.3
Total	$3,521.1	+$305.4	− $164.9
Corporates:			
Moody's Aa Composite (9/1/83)	12.78%	+ .23	− 1.20
30-Day Visible Supply ($ Million)	$ 510	+$ 15	− $ 900
Stocks:			
Dow-Jones Averages:			
Industrials	1,215.45	+ 23.38	+ 290.32
Transportation	558.94	+ 26.44	+ 189.26
Utilities	130.11	− 0.96	+ 12.82
65 Stocks	482.11	+ 11.71	+ 122.59
Standard and Poor's 500 Stocks	165.00	+ 2.86	+ 42.32
N.Y.S.E. Composite Index	95.28	+ 1.48	+ 25.02
N.Y.S.E. Avg. Daily Vol. for Week (000's)	66,368	− 3,074	− 20,512

* 46% Taxable equivalent 18.06%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/2/83	Week Ago
Overnight	9.50%	8.88%
1 month	9.88	9.44
3 month	10.25	9.88
6 month	10.63	10.31
1 year	11.00	10.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.15%	12.05%
Long Term (7 to 15 yrs.)	12.25	11.95

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/2/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01842	54.29
Canada	.8112	1.2328
Denmark	.1028	9.7300
France	.1230	8.1275
Germany	.3704	2.7000
Italy	.0006205	1611.50
Japan	.004051	246.85
Mexico	.00649	154.00
Netherlands	.3312	3.0190
Switzerland	.4568	2.1890
U.K.	1.4945	.6691

Photograph courtesy of Joel Greenberg.

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, SEPTEMBER 12, 1983
VOLUME XX, NUMBER 32

The Global Economic Upturn . . .

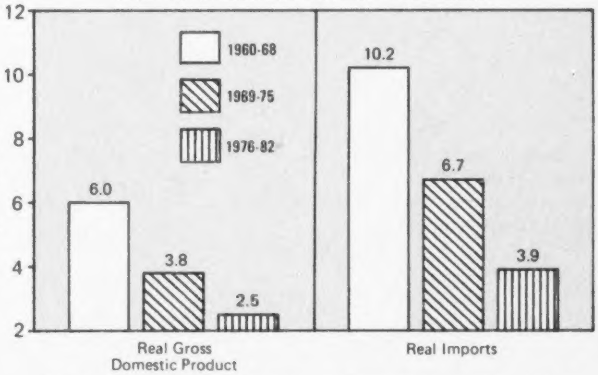
At the International Monetary Fund (IMF)/World Bank annual meeting in Washington at the end of this month, the mood is bound to be more cheerful than at the Toronto meeting last year. Then, the world economy was still in the grip of a global recession, with the widely forecasted revival failing to materialize because of weak exports, shrinking investment and inventory liquidation. Also, just prior to the meeting, Mexico had reported that it was encountering external payments difficulties—and it became apparent that some other countries would soon follow suit. Not surprisingly, as the stability of the international financial system became increasingly more doubtful, external debt emerged as a central point of discussion.

In contrast, the world economy now appears to be in better shape. Statistics indicate that the recession in the industrial countries bottomed in the fourth quarter of last year, and with production and several other indicators in these countries rising steadily since December, their economies grew close to two per cent, seasonally adjusted, in the first half of this year compared with the second half of last year. At the same time, on the external debt front, Mexico has made great progress towards resolving its external payments problem, and there is now hope that the global external debt payments problem will be alleviated before it derails the international economy.

Because of this improved outlook, it is likely that this year's IMF/World Bank meeting will focus on ways to strengthen the world economic revival. Particular emphasis will be placed on the economic policy mix in the industrial countries, especially in the U.S., on lowering trade barriers and on cooperative efforts between the industrial and the developing countries to promote economic growth and balance-of-payments adjustments in the latter set of countries.

There is no question that the impetus for global recovery will come from the industrial nations whose upswing will increase the need for imported goods, much of which will come from the developing countries (LDCs). The industrial countries of the free world absorb about 60 per cent of LDC exports. Improving exports will, in turn, lead to renewed growth in these LDCs. Consequently, much depends upon the strength and duration of recovery not only in the United States, but in the major economies of Europe and Asia as well.

'REAL' GROSS DOMESTIC PRODUCT VS. 'REAL' IMPORTS
FOR SEVEN SELECTED INDUSTRIAL COUNTRIES*
(AVERAGE ANNUAL PERCENT CHANGES)



*Seven countries include Canada, France, Germany, Italy, Japan, U.K., and U.S.

. . . Needs More Than Just The U.S. . . .

Although no substantial global economic upturn is possible without stimulus from the United States, our economy cannot sustain recovery elsewhere without help from the other industrial nations. There, growth based upon technological innovation and production creates demand for the raw materials and semi-manufactures exported by the developing world. The cycle of global economic interdependence begins in the industrial countries.

Yet, the current recovery in most of the industrial nations has been weak and hesitant. Much of the growth which has occurred has been in the United States and Japan; Europe's contribution has been marginal. Only in the United States, where the second quarter logged real growth at a seasonally adjusted annual rate of 9.2 per cent, can the economic upswing really be considered to be well under way. Nonetheless, for 1983 as a whole, the real Gross National Product is expected to rise not more than three per cent, compared with 5.4 per cent real growth in 1976—the first year of recovery after the recession of 1973-75.

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It is clear that the worldwide recovery from the recession of 1973-75 was more widespread, balanced and vigorous than the present cyclical upturn. The seven largest industrial nations in the free world (U.S., Japan, Germany, France, U.K., Italy and Canada) recorded real growth of 5.2 per cent in 1976 while their real imports grew by 13.7 per cent. This year, both aggregate real growth and the increase in import volume for these seven countries are unlikely to exceed two per cent.

This trend towards slower growth is nothing new. Since the decade of the 1960s, both rates of real growth and growth in imports have been declining and recoveries from the recessions of the 1970s and early 1980s have been slower and weaker than before (see chart on page 1). One underlying reason for the lag in overall growth and retardation of recoveries is the enormous drag on economic activity imposed by the explosive rise in energy prices in 1973-74 and 1978-79. However, the decision on the part of most of the industrial countries—particularly the United States—to squeeze inflation added to the breadth and depth of the recent downturn and to the sluggishness of this recovery.

. . . And Trade Is The Key

Besides the decline in their exports to industrial countries, the LDCs have been hurt by the plunge in prices of basic commodities, which form the bulk of LDC exports. In the 1970s, commodities

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/31/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	153.670	− .794	+11.691
Loans to Depository Inst.	1.714	+ .134	+ 1.207
Float	.821	− .559	− .735
Total Reserve Bank Credit	163.758	− 1.200	+10.563
Treasury Deposits with Federal Reserve Banks	3.300	− .259	+ .143
Currency Outside Banks	143.585	− 1.163	+11.616
Member Bank Reserves:			
Required	38.349	+ .008	− 1.717
Excess (Deficiency)	.541	+ .123	+ .179
Total Reserves Held	38.890	+ .131	− 1.538
Net Borrowed Reserves	.458	+ .027	+ .524
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	108.053	− .930	+14.068

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	513.3	+ 5.7‡	+ 12.4‡
M2 (August '83)	2,136.2	+ 7.6	+ 12.2
M3 (August '83)	2,527.9	+ 8.3	+ 9.1
Domestic Nonfinancial Debt (1st Q'83)	4,855.3	+ 8.9	+ 9.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 9/9/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.42%	9.90%	10.30%
* Federal Agencies	9.35	10.00	10.50
* Project Notes—Taxfree (46% Taxable Equivalent)	9.44	10.37	11.11
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.60	9.88	10.65

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.13%	Oct.	9.35%
15- 29 days	9.25	Nov.	9.35
30- 59 days	9.25	Dec.	9.40
60- 89 days	9.25	Jan.	9.45
90-179 days	9.38	Feb.	9.50
180-239 days	9.25	Mar.	9.45
240-270 days	9.25		

‡ Industrial Paper—Prime			
30- 89 days	9.35%	† Federal Funds	
90-120 days	9.38	Effective Rate	9.65%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,270	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,523	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.2	2.6	0.9
Change in Consumer Prices (new series)*	Jul '83	4.8%	2.4%	7.2%
Change in Producer Prices*	Aug '83n	4.8%	1.2%	6.0%
Civilian Employment (Thousands of Persons) †	Aug '83	101,563	101,285	99,683
Unemployment as % of Civilian Labor Force †	Aug '83	9.5%	9.5%	9.9%
Personal Income*	Jul '83	$ 2,751	$ 2,736	$ 2,590
Leading Indicators Composite Index (1967=100) †	Jul '83	157.7	157.2	136.2
Industrial Production Index (1967=100) †	Jul '83	148.6	146.0	138.8
Net Change in Consumer Installment Credit †	Jun '83	$ 4.41	$ 2.70	$ 2.02
U.S. Merchandise Trade Balance †	Jul '83	−$ 6.36	−$ 4.96	−$ 2.70
Plant and Equipment Expenditures*	4th Q'83n	$326.73(a)	$313.04r(a)	$303.18r
Private Housing Starts (Thousands of Units)*	Jul '83	1,741	1,752	1,185
New Construction Expenditures*	Jul '83	$ 267.7	$ 263.1	$ 230.8
Total Business Inventories †	Jun '83	$ 505.0	$ 505.7	$ 521.0
Total Business Sales †	Jun '83	$ 371.6	$ 364.1	$ 349.7

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

prices jumped by 188 per cent. The commodity price boom and the increase in the volume of exports led to rapid growth of the developing countries. Between the end of 1980 and the end of 1982, however, commodities prices fell by 27 per cent, intensifying the global recession and helping to bring about the financial problems of some LDCs. Although some commodities prices have recovered since the beginning of this year, most are still well below their peak reached in the first quarter of 1980.

Rising international trade will only slowly overcome the effects of the recent worldwide recession, and there is at least one other factor which will retard global economic recovery. Unemployment is still rising and may continue to do so throughout most of this year. In the first half of 1983, it averaged nearly 9½ per cent among the OECD countries, up from eight per cent in the first half of 1982.

The fact that the world economy has not snapped back is not unexpected considering the length and depth of the recession. International trade is recovering, but it is dependent upon domestic improvements in the industrialized countries which are still struggling with the problem of stable non-inflationary growth in an environment of high interest rates and high unemployment. Nor can we expect, in the near future, to return to the high growth rates of the 1960s and early 1970s.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/24/83)	95,185	+ 657	–54,615
New York City (8/24/83)	22,207	– 393	–18,020
Commercial Paper (8/24/83)	172,929	– 1,351	– 3,715*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (8/24/83)	213,850	+ 15	+ 2,887
New York City (8/24/83)	58,584	+ 315	– 473

Total Loans Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (8/24/83)	506,886	– 1,865	+14,060
New York City (8/24/83)	116,608	– 818	+ 622

Financial Markets

	Friday 9/9/83	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.30%	– .35	+ .71
180-Day Bills†	9.60	– .50	– .75
Longest Bills†	10.05	– .45	– 1.05
Recent Issues:			
$10\frac{5}{8}$s 8/31/85	10.63	– .57	
$10\frac{1}{2}$s 6/30/87	11.20	– .45	
$11\frac{7}{8}$s 8/15/93	11.50	– .50	
12s 8/15/13	11.50	– .50	
Municipals:			
Bond Buyer–20 Bond Index* (9/8/83)	9.67%	– .08	– 1.08
Blue List Total ($ Million)	$1,082	– $ 61	+ $ 88
30-Day Visible Supply ($ Million)	$2,414	+ $ 36	– $669
Total	$3,496	– $ 25	– $581
Corporates:			
Moody's Aa Composite (9/8/83)	12.67%	– .11	– 1.19
30-Day Visible Supply ($ Million)	$ 767	+ $257	– $263
Stocks:			
Dow-Jones Averages:			
Industrials	1,239.74	+ 24.29	+ 332.92
Transportation	569.66	+ 10.72	+ 200.06
Utilities	131.17	+ 1.06	+ 16.69
65 Stocks	490.90	+ 8.79	+ 136.73
Standard and Poor's 500 Stocks	166.92	+ 1.92	+ 45.95
N.Y.S.E. Composite Index	96.54	+ 1.26	+ 27.13
N.Y.S.E. Avg. Daily Vol. for Week (000's)	84,920	+18,552	+ 11,997

* 46% Taxable equivalent 17.91%.

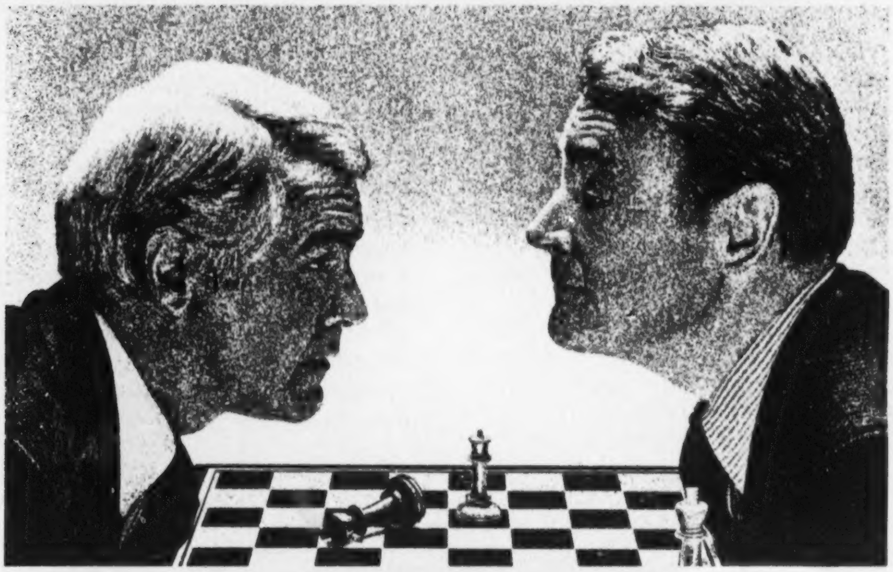
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/9/83	Week Ago
Overnight	9.44%	9.50%
1 month	9.75	9.88
3 month	10.00	10.25
6 month	10.31	10.63
1 year	10.19	11.00
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.85%	12.15%
Long Term (7 to 15 yrs.)	11.90	12.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/9/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01863	53.68
Canada	.8121	1.2314
Denmark	.1040	9.6175
France	.1245	8.0325
Germany	.3750	2.6670
Italy	.0006275	1593.50
Japan	.004089	244.55
Mexico	.006601	151.50
Netherlands	.3351	2.9845
Switzerland	.4613	2.1675
U.K.	1.4958	.6685



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Financial
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Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, SEPTEMBER 19, 1983 VOLUME XX, NUMBER 33

The Summer Interest Rate Backup . . .

Now that interest rates have edged lower, it is worthwhile to look back to see what damage their summer runup caused to the pace of business activity. Between May and August, both short- and long-term interest rates rose from 125 to 200 basis points, while the banks' prime lending rate was increased one half of one percentage point in August—its first increase in more than a year. As a result, the recovery slowed as retail sales, housing starts and new home sales weakened. But while these developments may be unwelcome to those retailers and homebuilders directly affected, they were precisely what the Federal Reserve and the credit markets were waiting for. Indeed, with the business rebound slipping into a lower gear, private short-term credit needs will remain weak and the long predicted clash between public and private borrowings will be delayed.

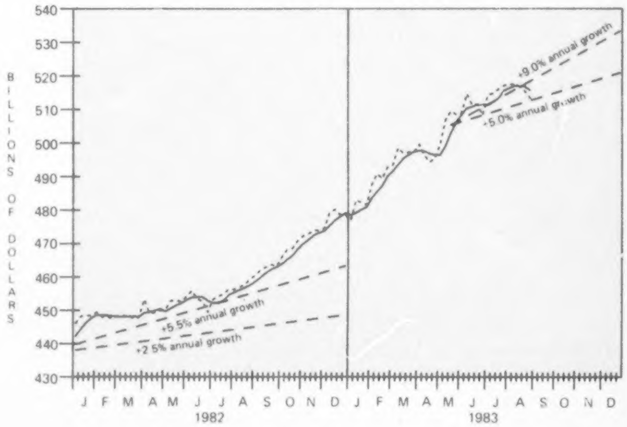
Between July, 1982 and May, 1983, interest rates dropped sharply, setting the stage for recovery. Sparked by a revival in consumer spending for such big-ticket and interest rate-sensitive items as new homes, automobiles and appliances, the rebound in business activity began to gather momentum. Whereas the inflation-adjusted GNP grew at a modest 2.6 per cent seasonally adjusted annual rate in the first quarter of 1983, by the second quarter it was expanding at a torrid 9.2 per cent annual clip.

With mortgage interest rates reaching a three-year low in May, 1983, homebuilders enjoyed their busiest spring building season in an equal number of years. Housing starts ran at a seasonally adjusted 1.8 million unit annual rate in May, some 76 per cent higher than May, 1982 levels. Sales of new single-family homes also reached a three-year high, reducing the inventory of unsold new homes to just a five-month supply—its lowest level since March, 1977. What is more, with consumer confidence brightening and auto loan rates down, the nation's automakers also began to put the recession behind them, reporting auto sales in June at a seasonally adjusted 7.5 million unit annual clip—their best performance in almost two years and a 46 per cent improvement compared with June, 1982. Since trends in the housing and automobile industries have a substantial ripple effect throughout the economy, 2.5 million people found work this year, pulling the jobless rate down by 1.3 per cent.

. . . Slows The Recovery . . .

But with a robust business recovery under way, and fear rising that private credit needs would grow much sooner than anticipated, the Federal Reserve decided to take some wind out of the recovery. Last spring, the Fed began to tighten the monetary reins in order to slow the recovery and dampen money growth. Before long, interest rates started to rise once again and recovery in both the housing and automobile industries slowed.

MONEY SUPPLY, M1
FOUR-WEEK MOVING AVERAGE (LINE)
VS. WEEKLY FIGURES (DOT)



Housing was hit rapidly. The two-point backup in mortgage interest rates since May, 1983 has arrested the rebound in housing as affordability has again become a problem for many homebuyers (Financial Digest—August 22, 1983). New single-family home sales, which had been rising strongly all spring, fell 6.5 per cent in July while starts of single-family homes declined 11.9 per cent in July, following a drop of 3.1 per cent in June. In response, lumber production began to sag, falling in August to its lowest level since the middle of February.

So, too, domestic car sales faded, dropping to a seasonally adjusted annual rate of 6.6 million units

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in August, the slowest pace since May. While the decline in sales of U.S.-manufactured cars reflects in part depleted inventories and the elimination of most buyer-incentive plans, it also arises from a deterioration in consumer sentiment. The University of Michigan Survey, for example, reported that its index of consumer sentiment slipped in August to its lowest level since last spring, as fears of rising interest rates, not to mention renewed recession, mounted. And, according to another survey, this one taken by the Conference Board, buying plans for cars and houses retreated in August from their strong gains posted as recently as July.

Thus, with interest rates rising and consumer sentiment deteriorating, it was not too surprising that retail sales plunged 1.4 per cent in August month-over-month, the largest monthly drop in more than a year. Although weakening auto sales contributed the most to August's drop in total sales, other categories of durable goods, especially such housing-related items as building materials, hardware, furniture and home furnishings all posted declines as well.

. . . To A More Sustainable Pace

To be sure, the economic rebound is still far from being derailed. The recovery has a lot of room for further expansion, albeit at a more modest pace than the rate of the second quarter. The slower

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/7/83	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	154.135	+ .465	+13.089
Loans to Depository Inst.	1.247	− .467	+ .299
Float	1.032	+ .190	− .886
Total Reserve Bank Credit	163.920	+ .141	+11.218
Treasury Deposits with Federal Reserve Banks	3.414	+ .114	− .362
Currency Outside Banks	144.814	+ 1.229	+12.399
Member Bank Reserves:			
Required	36.889	− 1.460	− 1.830
Excess (Deficiency)	.860	+ .298	+ .195
Total Reserves Held	37.749	− 1.162	− 1.635
Net Free Reserves	.294	+ .731	+ .355
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.048	+ .995	+15.063
		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1	518.5	+ 4.4‡	+ 12.2‡
M2 (August '83)	2,136.2	+ 7.6	+ 12.2
M3 (August '83)	2,527.9	+ 8.3	+ 9.1
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/16/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.90%	9.00%	10.00%
* Federal Agencies	9.25	9.60	10.10
* Project Notes—Taxfree (46% Taxable Equivalent)	9.26	10.46	11.11
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.55	9.85	10.45

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.50%	Oct.	9.35%
15- 29 days	9.50	Nov.	9.35
30- 59 days	9.38	Dec.	9.40
60- 89 days	9.38	Jan.	9.45
90-179 days	9.25	Feb.	9.50
180-239 days	9.25	Mar.	9.40
240-270 days	9.25		

‡ Industrial Paper—Prime			
30- 89 days	9.38%	† Federal Funds	
90-120 days	9.38	Effective Rate	9.60%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,270	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,523	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.2	2.6	0.9
Change in Consumer Prices (new series)*	Jul '83	4.8%	2.4%	7.2%
Change in Producer Prices*	Aug '83	4.8%	1.2%	6.0%
Civilian Employment (Thousands of Persons) †	Aug '83	101,563	101,285	99,683
Unemployment as % of Civilian Labor Force †	Aug '83	9.5%	9.5%	9.9%
Personal Income*	Jul '83	$ 2,751	$ 2,736	$ 2,590
Leading Indicators Composite Index (1967=100) †	Jul '83	157.7	157.2	136.2
Industrial Production Index (1967=100) †	Aug '83n	150.5	149.2r	138.4
Net Change in Consumer Installment Credit †	Jul '83n	$ 4.84	$ 4.41	$ 0.84
U.S. Merchandise Trade Balance †	Jul '83	−$ 6.36	−$ 4.96	−$ 2.70
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Jul '83	1,741	1,752	1,185
New Construction Expenditures*	Jul '83	$ 267.7	$ 263.1	$ 230.8
Total Business Inventories †	Jul '83n	$ 506.7	$ 505.5r	$ 521.1
Total Business Sales †	Jul '83n	$ 372.3	$ 373.6r	$ 347.7

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

pace of the recovery in future months was signaled by the 0.3 per cent rise in July's index of leading economic indicators—the smallest monthly increase since August, 1982 and considerably less than the 1.9 per cent average monthly gain of the first half of 1983.

Indeed, the Fed's limited restraining measures of last spring have seemingly accomplished their intended task. Not only has the pace of business activity moderated, diminishing fears of a renewed inflation spiral, but growth of the M1 money supply has decelerated as well. Over the last eight weeks, for example, M1 grew at a seasonally adjusted annual rate of only 5.6 per cent, well below the almost 20 per cent annual rate registered during the immediately preceding eight-week period (see chart on page 1). So, too, the growth of the broader money supply measures has moderated, and both M2 and M3 are within their respective growth target boundaries.

This means that for the first time in over a year, money supply developments do not suggest the need for a tightening of the money and credit reins and do not present an obstacle to lower interest rates. The Fed's earlier tightening and the slower pace of business activity have provided the Fed with a degree of policy flexibility unavailable just two months ago—auguring well for stable, if not lower interest rates in the weeks and months ahead.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/31/83)	95,401	+ 216	–53,002
New York City (8/31/83)	22,468	+ 261	–17,943
Commercial Paper (8/31/83)	172,383	– 546	– 1,679*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/31/83)	214,047	+ 187	+ 598
New York City (8/31/83)	58,030	– 554	– 1,934

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/31/83)	510,461	+ 3,494	+11,997
New York City (8/31/83)	117,836	+ 1,264	– 847

Financial Markets

	Friday 9/16/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.40%	+ .10	+ .81
180-Day Bills†	9.80	+ .20	– .55
Longest Bills†	10.15	+ .10	– .95
Recent Issues:			
10⁷/₈s 9/30/85 (When Issued)	11.35	NA	
10¹/₂s 6/30/87	11.75	+ .55	
11⁷/₈s 8/15/93	11.75	+ .25	
12s 8/15/13	11.75	+ .25	
Municipals:			
Bond Buyer–20 Bond Index* (9/15/83)	9.62%	– .05	– 1.13
Blue List Total ($ Million)	$1,084	+ $ 2	+ $ 90
30-Day Visible Supply ($ Million)	$1,961	– $453	– $1,122
Total	$3,045	– $451	– $1,032
Corporates:			
Moody's Aa Composite (9/15/83)	12.73%	+ .06	– 1.13
30-Day Visible Supply ($ Million)	$ 407	– $360	– $ 623
Stocks:			
Dow-Jones Averages:			
Industrials	1,225.71	– 14.03	+ 318.89
Transportation	572.73	+ 3.07	+ 203.13
Utilities	131.89	+ .72	+ 17.41
65 Stocks	488.88	– 2.02	+ 134.71
Standard and Poor's 500 Stocks	166.24	– .68	+ 45.27
N.Y.S.E. Composite Index	96.17	– .37	+ 26.76
N.Y.S.E. Avg. Daily Vol. for Week (000's)	81,536	– 3,384	+ 8,613

* 46% Taxable equivalent 17.81%.

† Bond equivalent.

International Rates

	Friday 9/16/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.63%	9.44%
1 month	9.88	9.75
3 month	9.94	10.00
6 month	10.25	10.31
1 year	10.56	10.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.95%	11.85%
Long Term (7 to 15 yrs.)	12.00	11.90

FOREIGN EXCHANGE SPOT RATES New York Opening (9/16/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01853	53.98
Canada	.8109	1.2332
Denmark	.1041	9.6055
France	.1238	8.0805
Germany	.3740	2.6740
Italy	.0006245	1601.40
Japan	.004106	243.55
Mexico	.006667	150.00
Netherlands	.3344	2.9900
Switzerland	.4601	2.1735
U.K.	1.4990	.6671

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Manufacturers Hanover Trust Company Member FDIC

The Manufacturers Hanover Financial Digest
Bank Window, Church St. Station
New York, New York 10015

First Class Mail
U.S. Postage
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New York, N.Y.
Permit No. 585

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BS 350-2A 9/27/83

The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, SEPTEMBER 26, 1983 VOLUME XX, NUMBER 34

The Fears Of A New Bout Of Inflation . . .

The Commerce Department's "flash" report estimating that real gross national product growth in the third quarter is tapering off from its torrid second-quarter pace should diminish widespread fears that the ongoing recovery will set off a renewed bout of inflation. Commerce estimates that inflation-adjusted GNP advanced at a seasonally adjusted seven percent annual rate in the third quarter, compared with the upward-revised 9.7 percent second-quarter pace. At the same time, the implicit price deflator, the broadest measure of inflation, is believed to be rising at a seasonally adjusted 3.2 percent annual rate in the current quarter, about the same as the 3.3 percent clip of the second quarter. And, the Labor Department reported Friday that there was little change in the rate of consumer price inflation in August, compared with the past few months.

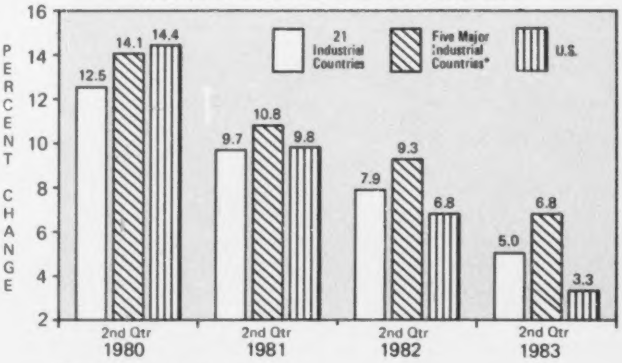
Those who worry about a resurgence of inflation offer several reasons. First, the inflation rate has ratcheted steadily higher over most of the business cycles of the postwar era as a result of increasingly expansionary fiscal policies and the ensuing budget deficits that such policies produced. A second source of concern is the strong growth of money and credit aggregates over much of the past year. Many economists believe that rapid money supply growth is often followed by periods of sharp increases in prices. Still more disturbing evidence comes from the recent escalation of spot commodity prices. Sharp increases in commodity prices usually presage an upsurge in wholesale and consumer prices. Thus, the 20 percent increase in commodity prices since November, 1982, bears watching.

. . . May Be Premature . . .

While it is true that rising inflation rates have eventually accompanied economic growth during most postwar recoveries, past experience also suggests that inflation continues to moderate for at least 12 months after the end of a recession, before turning upward during the second year of a recovery. While the monetarist economists, for example, would argue that the rapid growth in the money supply this year has already set the stage for a significant rise in inflation, they also acknowledge that there is a lag of one to two years between a surge in money growth and a resurgence of inflation.

The upward pressures on spot commodity prices have already led to higher food prices at both producer and consumer levels. Wholesale farm product prices jumped 3.8 percent in August, month-over-month, after declining in the previous three months. Consumers may have already begun to see the results of these developments in the supermarket, witness the 0.2 percent rise in retail food prices in August—the first monthly rise since May. However, the full price effects of reduced harvests resulting from the payment-in-kind program and the drought are not expected until 1984.

CONSUMER PRICE INDEX FOR SELECTED COUNTRIES
(PERCENT CHANGES FROM A YEAR AGO)



*France, Germany, Italy, Japan, U.K.

Perhaps the most important reason for expecting that near-term inflation rates will remain modest is the dramatic slowdown in wage increases and the typical post-recession pattern of productivity. For just as recession yields substantial inflation benefits, so, too, does recovery. This is because productivity usually increases faster in the early stages of recovery, slowing the rise in unit labor costs.

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The prolonged 1981-82 recession, with its record 12 million laid-off workers, and the highest business bankruptcy rate since the Great Depression, as well as strong pressures from foreign competition, tamed labor's demand for high wage increases—a major factor in earlier periods of high inflation. As a result, wage hikes for workers covered by major collective bargaining agreements settled in first-half 1983 were the lowest in 15 years. Pay increases averaged 0.9 percent for the first year of the contract and 2.7 percent a year for its duration. This compares with the average wage adjustment of 8.4 percent in the first contract year and 6.7 percent a year over the life of the contract that the same parties had negotiated during their previous bargaining. When this moderation is combined with the recent jump in nonfarm productivity, it produces a decline in unit labor costs—the first since 1975.

The strong dollar is also helping to keep inflation subdued. It has encouraged more lower-priced imports and has increased the pressures from foreign competition on domestic producers to become more cost-efficient.

. . . Both Here And Abroad

The inflation rate has slowed dramatically elsewhere as well. In the industrial nations, inflation has been restrained by anti-inflationary monetary policies and global recession. Consumer prices reached their recent high point in the industrial countries in the second quarter of 1980, rising 12.5 percent over the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/14/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	153.472	− .663	+13.226
Loans to Depository Inst.	1.148	− .099	− .182
Float	1.572	+ .602	− .720
Total Reserve Bank Credit	163.937	+ .079	+10.893
Treasury Deposits with Federal Reserve Banks	3.438	+ .024	− .030
Currency Outside Banks	145.106	+ .292	+12.598
Member Bank Reserves:			
Required	36.711	− .178	− 2.524
Excess (Deficiency)	.354	− .444	+ .034
Total Reserves Held	37.065	− .622	− 2.490
Net Borrowed Reserves	.108	+ .340	− .697
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	111.055	+ 2.007	+11.664

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	515.4	+ 3.8‡	+ 11.8‡
M2 (August '83)	2,136.3	+ 7.7	+ 12.2
M3 (August '83)	2,527.9	+ 8.4	+ 9.1
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/23/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.85%	8.90%	9.05%
* Federal Agencies	9.10	9.40	10.25
* Project Notes—Taxfree (46% Taxable Equivalent)	9.35	9.90	10.55
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.30	9.50	10.10

‡ Finance Company Paper—Prime	
5- 14 days	8.50%
15- 29 days	9.00
30- 59 days	9.00
60- 89 days	9.00
90-179 days	9.00
180-239 days	9.00
240-270 days	9.00

‡* Bankers' Acceptances	
Oct.	9.25%
Nov.	9.25
Dec.	9.20
Jan.	9.20
Feb.	9.20
Mar.	9.15

‡ Industrial Paper—Prime	
30- 89 days	9.13%
90-120 days	9.13

† Federal Funds Effective Rate	9.15%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,272 r	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,525 r	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.7 r	2.6	0.9
Change in Consumer Prices (new series)*	Aug '83n	4.8%	4.8%	3.6%
Change in Producer Prices*	Aug '83	4.8%	1.2%	6.0%
Civilian Employment (Thousands of Persons) †	Aug '83	101,563	101,285	99,683
Unemployment as % of Civilian Labor Force †	Aug '83	9.5%	9.5%	9.9%
Personal Income*	Aug '83n	$ 2,755	$ 2,749 r	$ 2,587
Leading Indicators Composite Index (1967=100) †	Jul '83	157.7	157.2	136.2
Industrial Production Index (1967=100) †	Aug '83	150.5	149.2	138.4
Net Change in Consumer Installment Credit †	Jul '83	$ 4.84	$ 4.41	$ 0.84
U.S. Merchandise Trade Balance †	Jul '83	−$ 6.36	−$ 4.96	−$ 2.70
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Aug '83n	1,935	1,785 r	1,046
New Construction Expenditures*	Jul '83	$ 267.7	$ 263.1	$ 230.8
Total Business Inventories †	Jul '83	$ 506.7	$ 505.5	$ 521.1
Total Business Sales †	Jul '83	$ 372.3	$ 373.6	$ 347.7

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

same quarter of the previous year. Since then, there has been a steady downward trend; consumer prices in the second quarter of this year were only five percent higher than in the same period of 1982 (see chart on page 1). This was the lowest inflation rate for any quarter since the fourth quarter of 1972—before the first sharp escalation of oil prices.

The most impressive slowing of inflation took place in the United Kingdom. In the second quarter of 1980, consumer prices were 21.5 percent above the levels of the second quarter in 1979. Three years later, this was reduced to 3.8 percent above the same quarter of the previous year. Italy, by contrast, which had a 21 percent inflation rate in the second quarter of 1980, was only able to slow it down to about 16 percent by the second quarter of this year.

Although improvement in the war against inflation has been dramatic in almost all of the developed nations, inflation has not come down to a uniform rate. With the exception of the United Kingdom, the largest industrial countries have maintained their relative positions over the past several years. Thus, for example, Italy and France still have high inflation rates relative to Japan and Germany. Japan, with the lowest rate of consumer price increases among the major industrial nations, scored an enviable 2.2 percent price rise in the second quarter of 1983 when compared with the second quarter of 1982.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/7/83)	94,083	– 1,044	–53,164
New York City (9/7/83)	22,119	– 349	–17,531
Commercial Paper (9/7/83)	173,990	+ 1,601	+ 2,804*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/7/83)	214,098	+ 35	+ 453
New York City (9/7/83)	58,100	+ 70	– 1,790

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/7/83)	511,052	+ 585	+14,163
New York City (9/7/83)	117,264	– 572	– 412

Financial Markets

	Friday 9/23/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.12%	– .28	+ 1.18
180-Day Bills†	9.40	– .40	– .35
Longest Bills†	9.72	– .43	– .87
Recent Issues:			
$10\frac{7}{8}$s 9/30/85 (When Issued)	10.50	– .85	
$11\frac{1}{8}$s 9/30/87 (When Issued)	10.97	NA	
$11\frac{7}{8}$s 8/15/93	11.35	– .40	
12s 8/15/13	11.35	– .40	
Municipals:			
Bond Buyer–20 Bond Index* (9/22/83)	9.42%	– .20	– 1.16
Blue List Total ($ Million)	$1,109	+ $ 25	– $ 106
30-Day Visible Supply ($ Million)	$2,292	+ $331	– $ 326
Total	$3,401	+ $356	– $ 432
Corporates:			
Moody's Aa Composite (9/22/83)	12.55%	– .18	– .91
30-Day Visible Supply ($ Million)	$ 497	+ $ 90	– $1,012
Stocks:			
Dow-Jones Averages:			
Industrials	1,255.59	+ 29.88	+ 336.07
Transportation	584.42	+ 11.69	+ 214.82
Utilities	133.43	+ 1.54	+ 16.37
65 Stocks	499.40	+ 10.52	+ 141.26
Standard and Poor's 500 Stocks	169.51	+ 3.27	+ 46.19
N.Y.S.E. Composite Index	98.07	+ 1.90	+ 27.32
N.Y.S.E. Avg. Daily Vol. for Week (000's)	94,134	+12,598	+ 25,630

* 46% Taxable equivalent 17.44%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/23/83	Week Ago
Overnight	9.13%	9.63%
1 month	9.56	9.88
3 month	9.63	9.94
6 month	9.81	10.25
1 year	10.13	10.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.70%	11.95%
Long Term (7 to 15 yrs.)	11.85	12.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/23/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01858	53.82
Canada	.8114	1.2324
Denmark	.1044	9.5825
France	.1241	8.0605
Germany	.3754	2.6640
Italy	.0006205	1611.50
Japan	.004151	240.93
Mexico	.006700	149.25
Netherlands	.3359	2.9770
Switzerland	.4632	2.1587
U.K.	1.4997	.6668

Manufacturers Hanover Trust Company announces the formation of:

THE MANUFACTURERS HANOVER INVESTMENT CORPORATION

600 Fifth Avenue,
New York, New York 10020

MANUFACTURERS HANOVER TRUST COMPANY

September 20, 1983

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The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, OCTOBER 3, 1983 VOLUME XX, NUMBER 35

Trends In The Money Supply . . .

With the onset of autumn, not only are the leaves turning brighter—so, too, is the interest rate outlook. For slower money growth, reduced estimates of Treasury borrowing needs, and a slight fading of the recovery's momentum now suggest stable, if not lower interest rates ahead. What is more, the emerging pattern of corporate finance—characterized by strong profits growth and lackluster credit demands—virtually precludes for this year the long-feared collision of private and Federal credit needs. All in all, today's interest rate outlook is decidedly different from that of just four months ago—when a faster pace of business activity, rapid money growth and a modest tightening of the credit reins were all combining to push interest rates higher.

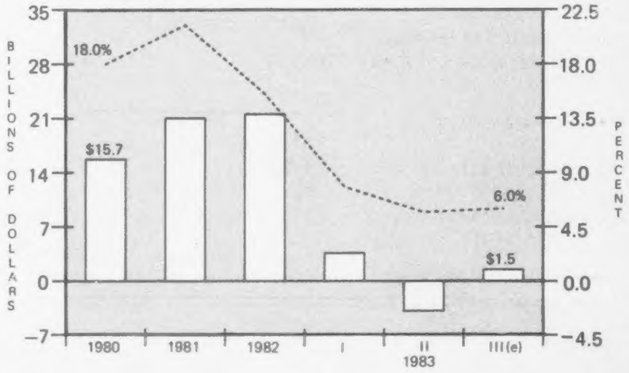
Perhaps the most encouraging development affecting near-term interest rate expectations has been the sharp deceleration of money supply growth. With the M1 money supply measure actually declining over the past month, and the broader M2 and M3 measures growing only modestly, the Federal Reserve now finds itself in the unusual position of having all of its monetary aggregates expanding within their respective, 1983 target boundaries. In fact, the slowing of the M1 money measure has been so pronounced that it now stands closer to its lower growth target boundary than its upper one: It is less than $2 billion ***above*** its five percent lower growth target boundary and almost $5 billion ***below*** its nine percent upper growth target boundary. Just three months ago, M1 stood a sizable $7 billion above its ***upper*** target boundary.

In fact, M1 may soon fall below its lower target. This is because one byproduct of the elimination of interest rate ceilings on deposits of over 31 days on October 1 could well be a substantial shift of funds from such interest-bearing M1 components as NOW and Super-NOW accounts into deregulated, fixed-term time deposits. If this occurs, the Fed may find itself urged to gently step on the money accelerator in order to ensure that below-target M1 money growth does not persist for too long—provided, of course, that the deregulation-induced deposit shifts are not sufficiently large to lift M2 (where the small time deposits will be located) above its upper target boundary.

. . . Federal And Corporate Finance . . .

The Treasury's financial position has improved—at least for the near-term. With actual outlays for such programs as agriculture price supports and extended unemployment insurance benefits running below original projections, and tax collections running above earlier expectations as more people return to work and corporate profits improve, estimates of the Treasury's net borrowing needs are being scaled back. In the third quarter, for example, net cash raised was closer to $45 billion, rather than the expected $55 billion; during the final three months of 1983, net cash needs will again probably be in the $45 billion range, compared with earlier official estimates of $60 to $65 billion.

NET CHANGE IN C & I LOANS OUTSTANDING (BAR) VS. NONFINANCIAL CORPORATE CREDIT DEMANDS AS A % OF TOTAL FUNDS RAISED (DOT)



To be sure, the Treasury will still raise some $90 billion in net cash in the second half of this year, and the fiscal year 1984 budget deficit may still top $175 billion. But at least the direction of Washington's borrowings is turning more favorable. A fourth-quarter borrowing pace of $45 billion would mark the second quarter in a row that the year-over-year pace of Treasury borrowings will have declined, a welcome reversal of the ever-escalating borrowing trend which characterized much of 1982 and early 1983. This, in turn, should allow room for some expansion of private borrowings as the recovery matures, without immediately prompting a clash of public and private credit needs.

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As of now, trends in the pattern of corporate finance suggest that this collision may be quite distant. This is because with corporate cash flows bolstered by vigorously rebounding profits and capital outlays still weak, nonfinancial corporations are now generating more funds internally than they are actually spending on inventories, plant and equipment. In the first half of 1983, corporate America generated $1.10 internally for each $1 of capital spending, and corporate credit demands faded as a result. These borrowings ran at a seasonally adjusted $38 billion annual rate during the January-June period, almost 60 percent below same-period, year-earlier levels—and accounted for just 6.4 percent of total funds raised in the credit markets. And while this small corporate share (see chart on page 1) was just about one-third the preceding five calendar year average, by the second quarter of 1983 it had slumped even lower—to 5.7 percent. With one quarterly exception this was the smallest number in almost 30 years: The one exception occurred just two quarters earlier when this ratio dropped to 4.3 percent.

. . . Suggest Lower Interest Rates Ahead

The fading of corporate America's credit demands continues to provide the elbow room necessary for the Treasury to finance its deficits without unduly disrupting interest rates. Even better is the fact that this situation is not expected to change anytime

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/21/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	158.080	+ 4.608	+16.882
Loans to Depository Inst.	2.109	+ .961	+ 1.299
Float	.877	− .763	− 1.405
Total Reserve Bank Credit	169.028	+ 5.023	+15.205
Treasury Deposits with Federal Reserve Banks	7.175	+ 3.737	+ 3.564
Currency Outside Banks	145.030	− .076	+12.316
Member Bank Reserves:			
Required	38.096	+ 1.385	− 1.908
Excess (Deficiency)	.245	− .177	− .005
Total Reserves Held	38.341	+ 1.208	− 1.913
Net Borrowed Reserves	1.158	+ 1.118	+ .816
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.609	− 1.446	+13.123

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	517.8	+ 3.7‡	+ 11.7‡
M2 (August '83)	2,136.9	+ 7.8	+ 12.3
M3 (August '83)	2,528.5	+ 8.4	+ 9.1
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/30/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.75%	8.90%	9.05%
* Federal Agencies	8.80	9.25	9.90
* Project Notes—Taxfree (46% Taxable Equivalent)	9.72	9.91	10.56
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.20	9.40	10.15

‡Finance Company Paper—Prime	
5- 14 days	9.38%
15- 29 days	9.13
30- 59 days	9.13
60- 89 days	9.00
90-179 days	9.00
180-239 days	8.88
240-270 days	8.88

‡* Bankers' Acceptances	
Oct.	9.10%
Nov.	9.10
Dec.	9.10
Jan.	9.10
Feb.	9.10
Mar.	9.05

‡Industrial Paper—Prime	
30- 89 days	9.38%
90-120 days	9.15

†Federal Funds Effective Rate 10.50%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,272	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,525	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.7	2.6	0.9
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Change in Producer Prices*	Aug '83	4.8%	1.2%	6.0%
Civilian Employment (Thousands of Persons)†	Aug '83	101,563	101,285	99,683
Unemployment as % of Civilian Labor Force†	Aug '83	9.5%	9.5%	9.9%
Personal Income*	Aug '83	$ 2,755	$ 2,749	$ 2,587
Leading Indicators Composite Index (1967=100)†	Aug '83n	158.1	158.3r	136.1
Industrial Production Index (1967=100) †	Aug '83	150.5	149.2	138.4
Net Change in Consumer Installment Credit †	Jul '83	$ 4.84	$ 4.41	$ 0.84
U.S. Merchandise Trade Balance †	Aug '83n	−$ 7.19	−$ 6.36	−$ 6.53
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Aug '83	1,935	1,785	1,046
New Construction Expenditures*	Jul '83	$ 267.7	$ 263.1	$ 230.8
Total Business Inventories †	Jul '83	$ 506.7	$ 505.5	$ 521.1
Total Business Sales †	Jul '83	$ 372.3	$ 373.6	$ 347.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

soon. To be sure, while total business credit demands have begun to inch higher from the trough reached in the fourth quarter of 1982, they have not risen by much. As of midyear, they were still running 60 percent below the peak reached in the spring of 1981 and about 40 percent below year-earlier levels. Furthermore, this trend carried into the summer quarter. Commercial and industrial loans outstanding, often a reliable guide to overall business borrowings, drifted sideways during the summer months, expanding at an anemic 1.6 percent seasonally adjusted annual rate during the past 13 weeks. Although this is, indeed, a turnaround from the outright decline in C & I outstandings during the immediately preceding 13 weeks, it is largely attributable to the modest restocking of business inventories now under way.

All this suggests that the combination of within-target money growth, lower-than-expected Treasury borrowings and today's pattern of corporate finance bodes well for lower interest rates by yearend. In this environment, Federal borrowings will jeopardize neither the recovery nor lower rate prospects, since together the nation's commercial banks and thrift institutions will almost certainly retain the capacity to absorb the lion's share of new Treasury debt offerings. This, in turn, should be sufficient to at least postpone the negative debt market consequences of Washington's continuing profligacy.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/14/83)	92,634	– 1,439	–54,085
New York City (9/14/83)	21,766	– 353	–17,329
Commercial Paper (9/14/83)	175,293	+ 1,303	+ 2,845*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/14/83)	213,496	– 602	– 3,187
New York City (9/14/83)	57,791	– 309	– 3,590

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/14/83)	509,231	– 1,809	+ 8,582
New York City (9/14/83)	115,950	– 1,314	– 3,378

Financial Markets

	Friday 9/30/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.00%	– .12	+ 1.50
180-Day Bills†	9.40	–0–	+ .33
Longest Bills†	9.80	+ .08	– .30
Recent Issues:			
$10\frac{7}{8}$s 9/30/85	10.50	–0–	
$11\frac{1}{8}$s 9/30/87	10.95	– .02	
$11\frac{7}{8}$s 8/15/93	11.40	+ .05	
12s 8/15/13	11.45	+ .10	
Municipals:			
Bond Buyer–20 Bond Index* (9/29/83)	9.46%	+ .04	– 1.02
Blue List Total ($ Million)	$1,393	+ $284	+ $216
30-Day Visible Supply ($ Million)	$2,305	+ $ 13	– $516
Total	$3,698	+ $297	– $300
Corporates:			
Moody's Aa Composite (9/29/83)	12.51%	– .04	– .92
30-Day Visible Supply ($ Million)	$ 607	+ $110	– $505
Stocks:			
Dow-Jones Averages:			
Industrials	1,233.13	– 22.46	+ 325.39
Transportation	561.58	– 22.84	+ 196.55
Utilities	134.68	+ 1.25	+ 18.77
65 Stocks	488.97	– 10.43	+ 135.21
Standard and Poor's 500 Stocks	166.07	– 3.44	+ 44.10
N.Y.S.E. Composite Index	96.24	– 1.83	+ 26.23
N.Y.S.E. Avg. Daily Vol. for Week (000's)	77,644	–16,490	+ 17,402

* 46% Taxable equivalent 17.52%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/30/83	Week Ago
Overnight	9.25%	9.13%
1 month	9.38	9.56
3 month	9.50	9.63
6 month	9.69	9.81
1 year	10.00	10.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.50%	11.70%
Long Term (7 to 15 yrs.)	11.60	11.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/30/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01870	53.49
Canada	.8114	1.2324
Denmark	.1050	9.5275
France	.1249	8.0055
Germany	.3790	2.6385
Italy	.0006256	1598.40
Japan	.004234	236.20
Mexico	.006289	159.00
Netherlands	.3392	2.9483
Switzerland	.4694	2.1303
U.K.	1.4953	.6688

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, OCTOBER 7, 1983

VOLUME XX, NUMBER 36

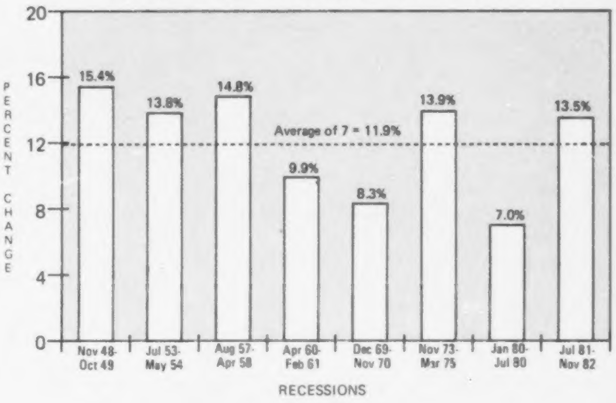
The Leading Indicators Dip . . .

Although the Commerce Department's index of leading economic indicators fell in August after a year of strong monthly gains, the modest decline does not suggest that the business recovery is faltering. To the contrary, the 0.1 percent month-over-month drop in the index can even be viewed as a good sign, indicating a slowing of economic activity to a more sustainable pace in the months ahead. A moderate deceleration of economic activity from its torrid second-quarter pace may well ensure that this recovery proceeds well into 1984 since it should forestall both the emergence of upward pressures on interest rates and a reignition of inflation expectations.

To be sure, August's decline in the leading indicators, which tend to foreshadow future business trends, does represent a reversal of its behavior over much of the past year—when it increased by an average monthly rate of just about 1½ percent. But while the overall index fell, its significance is uncertain. This is because six of the ten reported components still registered gains, while two of the components which contributed to the overall drop—stock prices and building permits—were negatively affected by last summer's increase in interest rates. Already the decline in stock prices has begun to reverse itself and the drop in homebuilding permits should level off as mortgage interest rates again drift lower. So, too, the rise in initial claims for state unemployment insurance, another factor contributing to the August decline, has ceased.

In fact, the performance of the leading indicators during this recovery actually provides further evidence that it is not about to derail anytime soon. The overall index rose 13.5 percent during the first nine months of this recovery, well above the average 11.9 percent gain posted during the first three quarters of previous postwar recoveries (see chart). During the first nine months of the 1980-81 upturn, in contrast, the index rose only seven percent, and never did return to the peak level reached in the preceding expansion. This time around, the index surpassed its previous peak by the fourth month of recovery, and now stands 5.9 percent above it.

INDEX OF LEADING INDICATORS IN CYCLICAL PERSPECTIVE:
% CHANGE DURING FIRST NINE MONTHS OF RECOVERY



. . . But Factory Orders And Inventories . . .

Indeed, several signs suggest further growth—albeit at a slower pace. One, a monthly survey of the purchasing managers of 250 industrial companies, reported that production continued to increase in September, while deliveries from suppliers slowed—indicating that order backlogs are growing. Another was the reported 1.1 percent month-over-month rise in new factory orders in August, an increase that would have been more than twice as large had not a sizable decline in orders for defense-related capital goods occurred. Other than the decline in this volatile component of factory orders, the gains were substantial, and shared by almost all major industries.

The most positive sign was that new orders for nondefense capital goods, a key barometer of future plant and equipment spending, rose by 6.4 percent in August, month-over-month. Their value now stands more than 20 percent above August, 1982 levels. As a result, increased factory orders are even

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beginning to feed back into the long-depressed machine tool industry. In August, new orders for machine tools, which are used to shape most parts of autos, machinery and household appliances, were 59 percent above their year-ago levels.

In response to increasing orders, manufacturers have finally begun to rebuild inventories. Following an increase of 0.3 percent in July, factory inventories rose another 0.7 percent in August—the largest one-month increase since September, 1981. This, in turn, suggests that at long last, the protracted and steep decline in factory stocks may be over. And if a modest inventory build-up is under way, this swing in inventories will be one of the major contributors to real economic growth in the latter half of 1983.

. . . Suggest Further Growth Ahead

To be sure, while inventories normally fall during recessions as businessmen attempt to better align stocks on hand with fading sales volume, what was unusual about the inventory correction this time around was its duration and magnitude. The reduction in stocks was by far the most prolonged of any postwar downturn—lasting six straight quarters—and the largest in size—totaling an inflation-adjusted $14.6 billion, or 4.2 percent between December,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/28/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	162.748	+ 4.668	+21.998
Loans to Depository Inst.	1.281	– .828	+ .528
Float	1.112	+ .163	– .642
Total Reserve Bank Credit	173.611	+ 4.511	+20.862
Treasury Deposits with Federal Reserve Banks	14.157	+ 6.982	+ 9.668
Currency Outside Banks	142.752	– 2.278	+12.175
Member Bank Reserves:			
Required	37.908	– .188	– 2.358
Excess (Deficiency)	.422	+ .105	+ .137
Total Reserves Held	38.330	– .083	– 2.221
Net Borrowed Reserves	.113	– .973	– .119
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	110.279	+ .670	+12.340

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1	518.3	+ 4.8‡	+ 11.8‡
M2 (August '83)	2,136.9	+ 7.8	+ 12.3
M3 (August '83)	2,528.5	+ 8.4	+ 9.1
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/7/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.50%	8.70%	8.85%
* Federal Agencies	8.85	9.50	9.85
* Project Notes—Taxfree (46% Taxable Equivalent)	9.44	9.63	10.19
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.13	9.25	9.75

‡Finance Company Paper—Prime	
5- 14 days	8.88%
15- 29 days	9.00
30- 59 days	8.88
60- 89 days	8.88
90-179 days	8.75
180-239 days	8.75
240-270 days	8.75

‡* Bankers' Acceptances	
Nov.	8.95%
Dec.	8.95
Jan.	8.95
Feb.	8.95
Mar.	8.95
Apr.	8.90

‡Industrial Paper—Prime	
30- 89 days	9.00%
90-120 days	9.00

†Federal Funds Effective Rate 9.40%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,272	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,525	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.7	2.6	0.9
Change in Consumer Prices (new series)*	Aug '83	4.8%	4.8%	3.6%
Change in Producer Prices*	Aug '83	4.8%	1.2%	6.0%
Civilian Employment (Thousands of Persons)†	Sep '83n	101,945	101,563	99,543
Unemployment as % of Civilian Labor Force†	Sep '83n	9.3%	9.5%	10.2%
Personal Income*	Aug '83	$ 2,755	$ 2,749	$ 2,587
Leading Indicators Composite Index (1967=100)†	Aug '83	158.1	158.3	136.1
Industrial Production Index (1967=100) †	Aug '83	150.5	149.2	138.4
Net Change in Consumer Installment Credit †	Jul '83	$ 4.84	$ 4.41	$ 0.84
U.S. Merchandise Trade Balance †	Aug '83	–$ 7.19	–$ 6.36	–$ 6.53
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Aug '83	1,935	1,785	1,046
New Construction Expenditures*	Aug '83n	$ 276.1	$ 269.5r	$ 231.6
Total Business Inventories †	Jul '83	$ 506.7	$ 505.5	$ 521.1
Total Business Sales †	Jul '83	$ 372.3	$ 373.6	$ 347.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

1981 and June, 1983. This is because businesses adjusted their stocks not only in response to slower sales during the past recession, but also in response to lower inflation rates and higher financing costs. The abrupt slowing of inflation, accompanied by lofty interest rates, made it costly to keep high levels of inventories on hand, forcing businesses to reduce stocks sharply.

In coming months, the replenishing of depleted inventories will undoubtedly provide substantial upward momentum to the economy. For now, however, low stock levels may actually be dampening sales. Take, for example, the domestic automakers. They blame unusually tight dealers' inventories for lower-than-expected sales performance in August and September. Whereas a 60- to 65-day level is considered normal for the industry, it had dropped as low as 48-days' supply in July, and even now is equal to just about a 50-day supply. This lack of inventories was partially responsible for the slowing of sales of domestically-produced cars in recent months. They fell from a seasonally adjusted 7.4 million unit annual rate during July's final ten-day selling period to seven million units in September. And although these supply shortages have prompted Detroit to speed up production, automakers do not expect them to disappear until yearend.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/21/83)	92,335	– 229	–56,505
New York City (9/21/83)	21,020	– 746	–17,778
Commercial Paper (9/21/83)	177,825	+ 2,494	– 3,704*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/21/83)	214,634	+ 1,102	– 2,897
New York City (9/21/83)	57,934	+ 143	– 3,641

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/21/83)	511,395	+ 2,136	+10,873
New York City (9/21/83)	116,373	+ 423	– 2,040

Financial Markets

	Friday 10/7/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.90%	– .10	+ 1.29
180-Day Bills†	9.30	– .10	+ .60
Longest Bills†	9.68	– .12	– .52
Recent Issues:			
$10^{7}/_{8}$s 9/30/85	10.40	– .10	
$11^{1}/_{8}$s 9/30/87	10.90	– .05	
$11^{7}/_{8}$s 8/15/93	11.32	– .08	
12s 8/15/13	11.38	– .07	
Municipals:			
Bond Buyer–20 Bond Index* (10/6/83)	9.49%	+ .03	– .26
Blue List Total ($ Million)	$1,403	+ $ 10	+ $545
30-Day Visible Supply ($ Million)	$2,410	+ $105	– $136
Total	$3,813	+ $115	+ $409
Corporates:			
Moody's Aa Composite (10/6/83)	12.43%	– .08	– .74
30-Day Visible Supply ($ Million)	$1,375	+ $768	+ $565
Stocks:			
Dow-Jones Averages:			
Industrials	1,272.15	+ 39.02	+ 285.30
Transportation	586.70	+ 25.12	+ 200.91
Utilities	138.97	+ 4.29	+ 18.72
65 Stocks	506.37	+ 17.40	+ 127.37
Standard and Poor's 500 Stocks	170.80	+ 4.73	+ 39.75
N.Y.S.E. Composite Index	98.72	+ 2.48	+ 23.72
N.Y.S.E. Avg. Daily Vol. for Week (000's)	98,356	+20,712	+ 468

* 46% Taxable equivalent 17.57%.

† Bond equivalent.

International Rates

	Friday 10/7/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.38%	9.25%
1 month	9.31	9.38
3 month	9.44	9.50
6 month	9.50	9.69
1 year	9.81	10.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.40%	11.50%
Long Term (7 to 15 yrs.)	11.50	11.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/7/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01901	52.60
Canada	.8129	1.2302
Denmark	.1071	9.3355
France	.1764	7.9085
Germany	.3882	2.5760
Italy	.0006371	1569.50
Japan	.004321	231.43
Mexico	.006472	154.50
Netherlands	.3455	2.8945
Switzerland	.4784	2.0903
U.K.	1.4995	.6669

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, OCTOBER 17, 1983 VOLUME XX, NUMBER 37

A Brighter Debt Horizon . . .

While there is reason for guarded optimism about the external debt problems of the less developed countries (LDCs), there still remains much to be done in the future. The principal cause for optimism has been the quick and concerted response to the debt crisis by the various participants—the developing countries themselves, such international institutions as the International Monetary Fund (IMF) and the Bank for International Settlements (BIS) and the commercial banks.

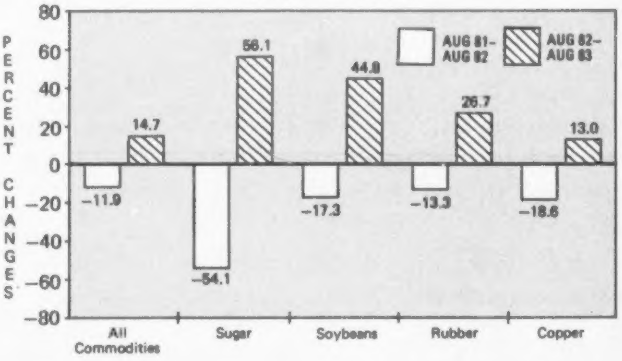
Most of those LDCs which have been faced with difficulties in servicing their external indebtedness have imposed restrictive, domestic policies aimed at reducing demand and increasing foreign exchange earnings to service their debt. These measures have included slashing imports, raising taxes, reducing government budget deficits and systematically devaluing their currencies to improve export price competitiveness. The results of these efforts are apparent. Brazil, for example, has generated a merchandise trade surplus of $4.9 billion so far this year. And, in the first six months of this year, Mexico slashed imports by 60 percent over the same period last year. What is more, there have been equally dramatic improvements in both the trade and current accounts in many of the other key developing countries. As a result, their aggregate trade surplus this year is expected to be about double last year's, while their aggregate current account deficit may be cut by two-thirds when compared with 1982.

The IMF has expanded its role not only as a monitor of international financial activity but also as a lender in order to meet emergency needs. The BIS also assumed a wider role than in the past by supplying short-term bridge financing to troubled LDCs until other resources could be mobilized. Both of these institutions have demonstrated great flexibility in responding to new challenges. So, too, have the commercial banks which have led the way in a series of debt reschedulings, which not only extend loan maturities in order to reduce the proportion of short-term LDC debt but also allow the LDCs more time to set their economic houses in order. In the last 18 months, some 15 debt relief agreements totaling about $100 billion, have been either put in place or are in negotiation.

. . . Reflects Improved Conditions . . .

Other factors also contribute to the rising optimism. For one thing, interest rates in the United States and abroad have retreated and are now several points below year-ago levels. This, in turn, has had at least two beneficial effects. First, it has lowered the cost of servicing debt. It has been estimated that each percentage point decline saves Mexico and Brazil at least $500 million a year in interest costs alone. Second, lower interest rates have stimulated recovery in the United States and in other industrial countries, allowing the markets for LDC exports to expand—increasing their foreign exchange earnings and, thus, improving their ability to service their debt. Over the last six months, for example, U.S. imports from the LDCs increased by 41 percent. As the U.S. economy grows during this recovery, the LDCs will continue to benefit.

INTERNATIONAL PRICE INDEXES FOR SELECTED COMMODITIES
(PERCENT CHANGES)



Another factor contributing to the improved LDC debt situation is the recovery in the prices of several basic commodities which are the principal exports of many developing countries (see chart). This is because the recovery that has been under way in the U.S. for almost a year has already helped boost commodities' prices sharply. Meanwhile, the price of the one major commodity that most developing countries must import, oil, has fallen. The average

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spot price for OPEC crude oil has dropped week-over-week for eight of the last nine weeks and is currently just over $28 per barrel—13.5 percent below the level of one year ago and the lowest level since early June.

. . . But Some Dark Clouds, Too

But in spite of these positive developments, there are still a number of obstacles to be overcome. In the first place most other industrial countries, particularly in Europe, are still experiencing only a hesitant and sluggish recovery and are not yet contributing fully to a healthy world economy by increasing their imports from the LDCs. Although the U.S. is the principal factor in world economic recovery, it cannot perform this task unaided. The major industrial countries of Europe, as well as Japan, must also take part in reviving world trade. Since exports are the LDCs' principal source of foreign exchange, still more LDCs may yet find themselves in need of financial assistance.

Unfortunately, one principal source of developing country assistance faces its own financial hurdles. Already the IMF's financial resources are severely strained in meeting present obligations. As of last April 30 (the end of the IMF's fiscal year), the IMF had just over $29 billion in available financial resources, most of which were committed under signed loan agreements to member countries. At

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/5/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	161.863	− .885	+20.114
Loans to Depository Inst.	1.416	+ .135	+ .810
Float	.896	− .256	− .740
Total Reserve Bank Credit	172.915	− .736	+19.081
Treasury Deposits with Federal Reserve Banks	12.326	− 1.831	+ 7.622
Currency Outside Banks	143.865	+ 1.113	+12.276
Member Bank Reserves:			
Required	37.529	− .379	− 2.208
Excess (Deficiency)	.678	+ .216	+ .167
Total Reserves Held	38.207	− .163	− 2.041
Net Borrowed Reserves	.038	− .035	+ .170
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.818	− .461	+11.035

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	517.2	+ 4.6‡	+ 11.5‡
M2 (September '83)	2,145.7	+ 5.9	+ 11.9
M3 (September '83)	2,544.0	+ 7.3	+ 9.0
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 10/14/83	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	8.75%	8.90%	9.05%
* Federal Agencies	9.05	9.35	9.85
* Project Notes—Taxfree (46% Taxable Equivalent)	9.44	9.72	10.46
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.25	9.40	10.10

‡ Finance Company Paper—Prime	
5- 14 days	9.13%
15- 29 days	9.13
30- 59 days	9.13
60- 89 days	9.13
90-179 days	9.00
180-239 days	8.88
240-270 days	8.88

‡* Bankers' Acceptances	
Nov.	9.10%
Dec.	9.07
Jan.	9.07
Feb.	9.07
Mar.	9.07
Apr.	9.05

‡ Industrial Paper—Prime	
30- 89 days	9.10%
90-120 days	9.05

† Federal Funds Effective Rate 9.25%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'83	$ 3,272	$ 3,172	$ 3,070
Gross National Product (1972 Dollars)*	2nd Q'83	$ 1,525	$ 1,490	$ 1,489
Percent Change, Annual Rate	2nd Q'83	9.7	2.6	0.9
Change in Consumer Prices (new series)*	Aug '83	4.8%	4.8%	3.6%
Change in Producer Prices*	Sep '83n	1.2%	4.8%	1.2%
Civilian Employment (Thousands of Persons) †	Sep '83	101,945	101,563	99,543
Unemployment as % of Civilian Labor Force †	Sep '83	9.3%	9.5%	10.2%
Personal Income*	Aug '83	$ 2,755	$ 2,749	$ 2,587
Leading Indicators Composite Index (1967=100) †	Aug '83	158.1	158.3	136.1
Industrial Production Index (1967=100) †	Sep '83n	153.7	151.4r	137.3
Net Change in Consumer Installment Credit †	Aug '83n	$ 3.39	$ 4.84	$ 0.26
U.S. Merchandise Trade Balance †	Aug '83	−$ 7.19	−$ 6.36	−$ 6.53
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Aug '83	1,935	1,785	1,046
New Construction Expenditures*	Aug '83	$ 276.1	$ 269.5	$ 231.6
Total Business Inventories †	Aug '83n	$ 512.1	$ 505.8r	$ 521.3
Total Business Sales †	Aug '83n	$ 373.6	$ 372.4r	$ 343.4

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

present the IMF is awaiting approval of an increase in member quotas in order to supplement its existing resources. The bill approving an $8.4 billion increase in the U.S. quota is now awaiting final revision by a House of Representatives/Senate Conference Committee.

The financial resources of the IMF have not grown at a rate commensurate with the rising demands placed upon them. Prior to 1974, total IMF quotas were about twice as large as the aggregate of the members' annual current account deficits. Since that year, the quotas have averaged only about one-half of the annual level of members' current account deficits. What is more, only about one-half of the currencies which make up the quota contributions can be used for lending—the currencies of the major industrial countries.

If the quota increases requested by the IMF are approved by the members (including the U.S.) the total funds available to the IMF from its members will be close to $100 billion. At this level the IMF should be able to meet its present and prospective obligations to member countries. Because of the key role which this institution plays in the international financial markets, both as a lender and as a monitor of members' economic performance, it is important that the Fund remains able to participate in the vital adjustment process which is now taking place.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/28/83)	93,384	+ 1,049	–54,840
New York City (9/28/83)	21,054	+ 34	–16,103
Commercial Paper (9/28/83)	176,835	– 990	+ 4,385*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/28/83)	213,348	– 1,286	– 4,586
New York City (9/28/83)	56,931	– 1,003	– 4,290

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/28/83)	510,584	– 711	+ 8,027
New York City (9/28/83)	115,321	– 1,052	– 4,205

Financial Markets

	Friday 10/14/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.05%	+ .15	+ 1.45
180-Day Bills†	9.45	+ .15	+ 1.32
Longest Bills†	9.83	+ .15	+ 1.03
Recent Issues:			
$10^{7}/_{8}$s 9/30/85	10.58	+ .18	
$11^{1}/_{8}$s 9/30/87	11.07	+ .17	
$11^{7}/_{8}$s 8/15/93	11.55	+ .23	
12s 8/15/13	11.60	+ .22	
Municipals:			
Bond Buyer–20 Bond Index* (10/13/83)	9.67%	+ .18	+ .42
Blue List Total ($ Million)	$1,436	+ $ 33	+ $ 350
30-Day Visible Supply ($ Million)	$2,214	– $196	– $1,253
Total	$3,650	– $163	– $ 903
Corporates:			
Moody's Aa Composite (10/13/83)	12.56%	+ .13	– .27
30-Day Visible Supply ($ Million)	$1,742	+ $367	+ $ 532
Stocks:			
Dow-Jones Averages:			
Industrials	1,263.52	– 8.63	+ 270.42
Transportation	580.55	– 6.15	+ 178.57
Utilities	137.38	– 1.59	+ 16.12
65 Stocks	502.06	– 4.31	+ 116.79
Standard and Poor's 500 Stocks	169.86	– .94	+ 36.29
N.Y.S.E. Composite Index	98.00	– .72	+ 21.26
N.Y.S.E. Avg. Daily Vol. for Week (000's)	72,350	–26,006	– 46,292

* 46% Taxable equivalent 17.91%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/14/83	Week Ago
Overnight	9.63%	9.38%
1 month	9.63	9.31
3 month	9.81	9.44
6 month	9.88	9.50
1 year	10.19	9.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.50%	11.40%
Long Term (7 to 15 yrs.)	11.60	11.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/14/83)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01878	53.26
Canada	.8109	1.2332
Denmark	.1056	9.4725
France	.1250	8.0025
Germany	.3816	2.6205
Italy	.0006287	1590.50
Japan	.004279	233.68
Mexico	.006452	155.00
Netherlands	.3407	2.9355
Switzerland	.4707	2.1243
U.K.	1.4945	.6691

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, OCTOBER 24, 1983 VOLUME XX, NUMBER 38

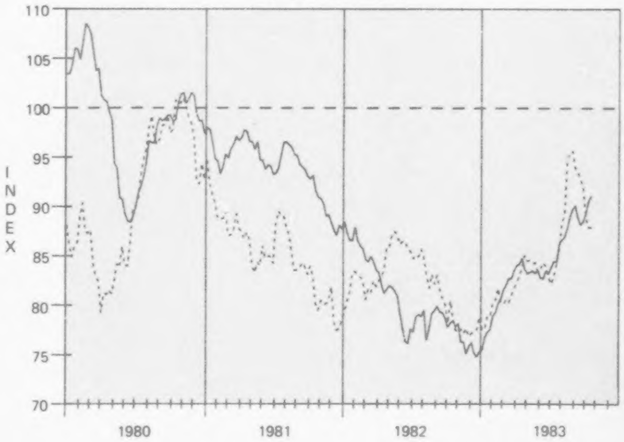
Inflation Is Kept In Check . . .

One of the favorable developments accompanying the current economic recovery is the remarkable deceleration in the rate of inflation. In September, producer prices increased a scant 0.2 percent, or at a 2.4 percent annual rate. In the 12 months ending in August, consumer prices advanced by only 2.5 percent—one of the lowest year-over-year rises since the mid-1960s—and less than a quarter of the 10.9 percent 12-month increase posted just two years ago. Meanwhile, the Commerce Department last week reported that the implicit GNP price deflator, the broadest measure of inflation, rose at a seasonally adjusted 3.4 percent annual rate in the third quarter—about the same as the 3.3 percent clip of the second quarter. By any yardstick, the progress in combating inflation has been impressive.

Weakness in energy prices during the last two years combined with extremely modest increases in food prices were two major contributors to the cooling of inflation. But a recent rise in spot commodity prices has generated fears in some quarters that inflation may flare up again. By the end of August, the Commodity Research Bureau's index of all commodity prices had risen 21½ percent from the lows of last December, as prices of both raw industrials and foodstuffs took off. But while the increase in raw industrial prices occurred because of changing pressures of supply and demand in the marketplace, reflecting the typical upward trend in prices during a recovery, the runup in prices of foodstuffs was caused mainly by the summer drought and the Administration's new farm program. However, as it became clear that the damage done by this year's reduced crops would be partially offset by plentiful corn and wheat surpluses from previous years' harvests, prices of foodstuffs began to retreat.

At the same time, pressures under industrial commodity prices eased. Prices of such individual raw materials as copper, tallow, hides and cotton declined. And while prices of raw industrials climbed seven percent in the eight weeks between July 5 and August 30, in the following seven weeks the increase amounted to just 1½ percent. As a result of these trends, the index of all commodity prices remains about 11½ percent below its peak level reached in November, 1980 (see chart).

TUESDAY SPOT PRICE INDEXES
RAW INDUSTRIALS (LINE) VS. FOODSTUFFS (DOT)
(OCT. 1980=100)



Although consumers are likely to pay higher food prices at the supermarkets in the coming months, the effects of these price increases on overall consumer prices are not expected to be significant and do not present a serious threat to the disinflationary progress of the last two years. This is because the food components of the consumer price index (CPI) account for only 20 percent of the total index. Thus, for example, if all other components of the CPI were to hold steady, a one percentage point increase in retail food prices would result in only a 0.2 percent rise in the overall CPI. In addition, higher prices of some groceries are being offset by lower beef and pork prices because farmers, unable to meet rising feed costs—another consequence of the drought—are slaughtering their herds. Sometime next year, however, the reduced supply of livestock will translate into higher meat prices.

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. . . By Stable Energy Prices . . .

As for raw materials, their higher prices will not push prices up significantly because other costs of production such as energy and labor remain moderate. Indeed, the absence of pressures on energy prices is a key factor in the favorable outlook for inflation. Although political instability in the Middle East could again disrupt the flow of oil imports from the OPEC nations, the U.S. not only has diversified its supply sources, but also has slowed the growth of consumption of petroleum products—thus placing itself into a considerably less vulnerable position in case of a potential oil supply interruption or price increase.

During the first eight months of 1983, for example, consumption of petroleum products declined 3.1 percent, while imports of crude oil fell 9.9 percent compared with the first eight months of 1982. In the ten years that have passed since the Arab oil embargo, the U.S. reduced its crude imports from the Persian Gulf by 20 percent. The combination of increased non-OPEC sources of oil, energy substitution and conservation efforts has reduced the dominance of OPEC in international markets and weakened significantly OPEC's ability to dictate world oil prices.

. . . And Growing Productivity

But perhaps the most important reason for expecting that near-term inflation rates will remain

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/12/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	159.375	– 2.488	+19.039
Loans to Depository Inst.	1.274	– .142	+ .909
Float	1.322	+ .447	– .969
Total Reserve Bank Credit	170.130	– 2.764	+17.564
Treasury Deposits with Federal Reserve Banks	8.628	– 3.698	+ 5.809
Currency Outside Banks	145.496	+ 1.631	+12.462
Member Bank Reserves:			
Required	36.569	– .960	– 2.318
Excess (Deficiency)	.752	+ .095	+ .290
Total Reserves Held	37.321	– .865	– 2.028
Net Free Reserves	.262	+ .321	– .022
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	109.626	– .192	+ 8.687

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1	519.6	+ 4.7‡	+ 11.4‡
M2 (September '83)	2,145.7	+ 5.9	+ 11.9
M3 (September '83)	2,544.0	+ 7.3	+ 9.0
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/21/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.50%	8.70%	8.85%
* Federal Agencies	8.80	9.10	9.75
* Project Notes—Taxfree (46% Taxable Equivalent)	9.44	9.81	10.37
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.13	9.25	9.80

‡Finance Company Paper—Prime	
5- 14 days	9.00%
15- 29 days	9.00
30- 59 days	9.00
60- 89 days	9.00
90-179 days	8.88
180-239 days	8.75
240-270 days	8.75

‡* Bankers' Acceptances	
Nov.	9.00%
Dec.	9.00
Jan.	9.00
Feb.	9.00
Mar.	9.00
Apr.	8.90

‡Industrial Paper—Prime	
30- 89 days	9.00%
90-120 days	9.00

†Federal Funds Effective Rate 9.38%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83n	$ 3,363	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83n	$ 1,554	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83n	7.9	9.7	– 1.0
Change in Consumer Prices (new series)*	Aug '83	4.8%	4.8%	3.6%
Change in Producer Prices*	Sep '83	1.2%	4.8%	1.2%
Civilian Employment (Thousands of Persons)†	Sep '83	101,945	101,563	99,543
Unemployment as % of Civilian Labor Force†	Sep '83	9.3%	9.5%	10.2%
Personal Income*	Sep '83n	$ 2,781	$ 2,756r	$ 2,597
Leading Indicators Composite Index (1967=100)†	Aug '83	158.1	158.3	136.1
Industrial Production Index (1967=100) †	Sep '83	153.7	151.4	137.3
Net Change in Consumer Installment Credit †	Aug '83	$ 3.39	$ 4.84	$ 0.26
U.S. Merchandise Trade Balance †	Aug '83	–$ 7.19	–$ 6.36	–$ 6.53
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Sep '83n	1,652	1,909r	1,134
New Construction Expenditures*	Aug '83	$ 276.1	$ 269.5	$ 231.6
Total Business Inventories †	Aug '83	$ 512.1	$ 505.8	$ 521.3
Total Business Sales †	Aug '83	$ 373.6	$ 372.4	$ 343.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

modest is the dramatic slowdown in wage increases and the typical post-recession pattern of productivity. Productivity usually increases faster in the early stages of recovery, slowing any rise in unit labor costs. The prolonged 1981-82 recession, with its record 12 million laid-off workers and the highest business bankruptcy rate since the Great Depression—not to mention strong pressures from foreign competition—has reduced labor's appetite for big wage increases.

As a result, wage hikes for workers covered by major collective bargaining agreements settled in first-half 1983 were the lowest in 15 years. Pay increases averaged 0.9 percent for the first year of the contract and 2.7 percent a year for its duration. This compares with an average wage adjustment of 8.4 percent in the first contract year and 6.7 percent a year over the life of the contract that the same parties negotiated during their previous bargaining. When this moderation is combined with the recent jump in nonfarm productivity, it produces a decline in unit labor costs—the first since 1975.

Finally, the strong dollar is also helping to keep inflation subdued. It has encouraged more lower-priced imports and has increased the pressures from foreign competition on domestic producers to become more cost-efficient.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/5/83)	90,119	– 3,266	–57,957
New York City (10/5/83)	19,479	– 1,575	–17,643
Commercial Paper (10/5/83)	176,912	+ 74	+ 3,282*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/5/83)	214,902	+ 1,552	– 5,774
New York City (10/5/83)	57,818	+ 887	– 4,867

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/5/83)	515,859	+ 5,277	+10,177
New York City (10/5/83)	118,332	+ 3,011	– 1,736

Financial Markets

	Friday 10/21/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.80%	– .25	+ .90
180-Day Bills†	9.25	– .20	+ .65
Longest Bills†	9.65	– .18	+ .45
Recent Issues:			
10½s 10/31/85 (When Issued)	10.50	NA	
11⅛s 9/30/87	10.97	– .10	
11⅞s 8/15/93	11.40	– .15	
12s 8/15/13	11.47	– .13	
Municipals:			
Bond Buyer–20 Bond Index* (10/20/83)	9.68%	+ .01	– .01
Blue List Total ($ Million)	$1,436	–0–	+ $ 16
30-Day Visible Supply ($ Million)	$2,824	+ $610	– $1,514
Total	$4,260	+ $610	– $1,498
Corporates:			
Moody's Aa Composite (10/20/83)	12.46%	– .10	– .33
30-Day Visible Supply ($ Million)	$1,100	– $642	– $160
Stocks:			
Dow-Jones Averages:			
Industrials	1,248.88	– 14.64	+ 217.42
Transportation	590.30	+ 9.75	+ 150.93
Utilities	138.82	+ 1.44	+ 17.28
65 Stocks	502.00	– .06	+ 97.82
Standard and Poor's 500 Stocks	165.95	– 3.91	+ 27.13
N.Y.S.E. Composite Index	95.75	– 2.25	+ 16.07
N.Y.S.E. Avg. Daily Vol. for Week (000's)	90,998	+18,648	– 10,542

* 46% Taxable equivalent 17.93%.

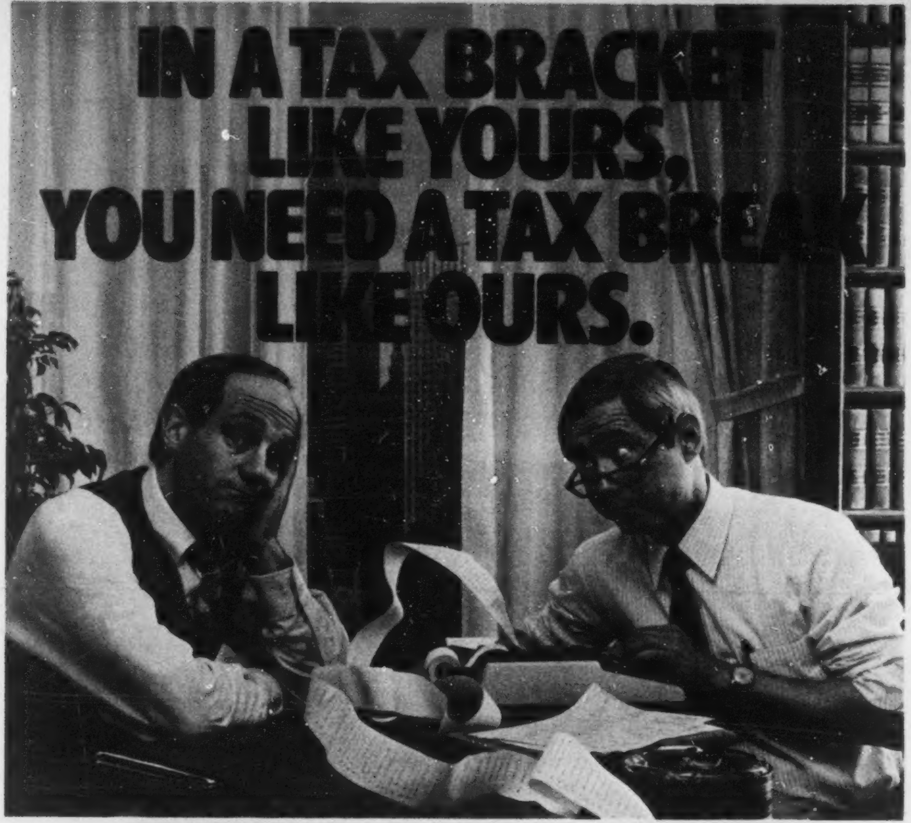
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/21/83	Week Ago
Overnight	9.38%	9.63%
1 month	9.44	9.63
3 month	9.50	9.81
6 month	9.63	9.88
1 year	9.94	10.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.45%	11.50%
Long Term (7 to 15 yrs.)	11.55	11.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/21/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01898	52.70
Canada	.8124	1.2309
Denmark	.1068	9.3630
France	.1267	7.8905
Germany	.3874	2.5815
Italy	.0006357	1573.00
Japan	.004311	231.97
Mexico	.006349	157.50
Netherlands	.3444	2.9035
Switzerland	.4764	2.0992
U.K.	1.5022	.6657



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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, OCTOBER 31, 1983 VOLUME XX, NUMBER 39

The Dollar Will Weaken . . .

After reaching record levels in early August, the dollar has moved significantly lower against other major currencies, suggesting that the long-awaited weakening of the U.S. currency may finally be at hand. On a trade-weighted basis, the dollar has eased by 2.7 percent since the week ended August 12 when the dollar peaked; it has fallen by 5.3 percent against the Japanese yen, and by 4.6 percent against the German mark (see chart). What is more, falling U.S. interest rates suggest further declines. Between the dollar's high-water mark on August 12 and October 21, both U.S. and Euromarket interest rates have fallen. Interest rates on three-month U.S. secondary CDs and three-month Eurodollar CDs have both dropped by almost one percentage point.

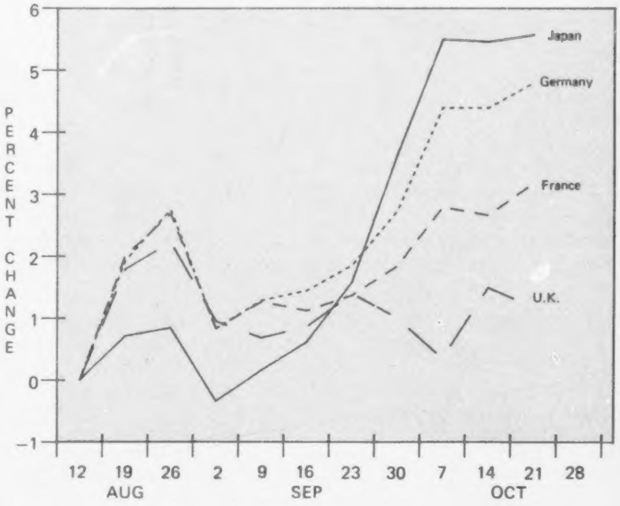
U.S. interest rates are still high in both nominal and real terms. However, these rates may now be less supportive of the dollar than before. For one thing, the spread between U.S. interest rates and foreign interest rates has narrowed. As a result, dollar-denominated assets are no longer quite as attractive to foreign investors as before. The higher yields offered by dollar-denominated financial assets when compared with foreign currency assets do not now provide as high an offset to a potential loss from the investment should the dollar depreciate during the investment period.

. . . As Interest Rates Ease . . .

Further, market expectations have shifted from one of rising, to one of either stable or falling interest rates. This suggests that the possibility of dollar depreciation is greater than before, further reducing the attractiveness of dollar-denominated financial assets. Interest rates are expected to trend lower partly because of the slower growth of the U.S. money supply. With M1 now growing within the Federal Reserve's target band, the markets no longer expect any near-term Fed action that would raise interest rates.

What is more, the apparent ease with which corporations are financing their capital expenditures with internally-generated funds, and reduced estimates of Treasury borrowing needs also explain why U.S. interest rate expectations have changed. These factors imply that the strong competition for funds in the debt markets between the private and the public sectors, which would put upward pressure on interest rates, will occur later than many had expected. Finally, anticipation of a further slowing of U.S. economic growth in the fourth quarter from the torrid pace of the second and third quarters, by keeping the demand for money—and goods—moderate, reinforces the view that interest rates will fall.

VALUES IN U.S. DOLLARS OF CURRENCIES
% CHANGE FROM AUGUST 12, 1983
(WEEKLY AVERAGES)



. . . And The Trade Deficit Deteriorates . . .

Soaring U.S. merchandise trade and current account deficits also point to a decline in the value of the dollar. The U.S. merchandise trade balance registered a record $36.4 billion deficit last year, and the red ink is expected to gush even more strongly this year and next. Merchandise trade deficits of at least $60 billion this year and $85 billion next year are possible. These numbers are so large that they will swamp by a wide margin the usually substantial surpluses the U.S. runs on its services account.

As a result, the current account balance, which includes all foreign transactions in goods, services and transfer payments, is expected to show deficits of about $30 billion this year and $50 billion next year

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These figures exceed by an overwhelming margin the previous record current account deficits experienced in 1977 and 1978, which were $14.5 billion and $15.4 billion, respectively. From the beginning of 1977 to the end of 1978, the dollar depreciated by 11.4 percent on a trade-weighted basis.

High U.S. interest rates have so far neutralized the impact of the mounting U.S. current account deficits on the dollar. But as these rates stabilize or fall, the negative impact of the current account deficits this year and next will become much more evident to the markets, thus depressing the dollar's external value. A weaker dollar will be a welcome development for the world economy, although there may be some unwanted side effects. It will, for example, contribute towards higher inflation in the United States. It may also produce strains within the European Monetary System (EMS) and force yet another realignment: when the dollar weakens, funds usually shift into the German mark, strengthening it against its EMS counterparts. It will also lessen the export-price advantage of countries competing internationally with the U.S. and may prompt the oil-producing countries, whose oil exports are paid for in dollars, to try to raise prices. However, it is doubtful that OPEC can put into effect noticeably higher prices in the next two or three years because of the condition of the oil market.

. . . Benefiting The World Economy

There are, however, a number of benefits resulting from a weaker dollar. Growing pressure for protectionism in the U.S., which looms as a threat

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 10/19/83	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies			
Owned Outright & RPs	157.576	– 1.799	+14.935
Loans to Depository Inst.	.577	– .697	+ .061
Float	1.668	+ .346	– 1.062
Total Reserve Bank Credit	168.778	– 1.352	+13.041
Treasury Deposits with Federal Reserve Banks	5.258	– 3.370	+ 2.400
Currency Outside Banks	146.624	+ 1.128	+12.333
Member Bank Reserves:			
Required	38.094	+ 1.525	– 2.883
Excess (Deficiency)	.263	– .489	+ .002
Total Reserves Held	38.357	+ 1.036	– 2.881
Net Borrowed Reserves	.080	+ .342	+ .020
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.885	+ 3.259	+12.666

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	517.4	+ 3.8‡	+ 11.1‡
M2 (September '83)	2,145.3	+ 5.8	+ 11.9
M3 (September '83)	2,544.0	+ 7.2	+ 9.0
Domestic Nonfinancial Debt (2nd Q'83)	4,939.1	+ 11.7	+ 10.3

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 10/28/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.60%	8.80%	8.95%
* Federal Agencies	8.75	9.25	9.90
* Project Notes—Taxfree (46% Taxable Equivalent)	9.44	9.72	10.56
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.20	9.35	9.90

‡Finance Company Paper—Prime	
5- 14 days	9.00%
15- 29 days	9.00
30- 59 days	9.00
60- 89 days	9.00
90-179 days	8.88
180-239 days	8.75
240-270 days	8.75

‡* Bankers' Acceptances	
Nov.	9.07%
Dec.	9.07
Jan.	9.07
Feb.	9.07
Mar.	9.08
Apr.	9.00

‡Industrial Paper—Prime	
30- 89 days	9.00%
90-120 days	9.05

†Federal Funds Effective Rate 9.30%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'83	$ 3,363	$ 3,272	$ 3,091
Gross National Product (1972 Dollars)*	3rd Q'83	$ 1,554	$ 1,525	$ 1,486
Percent Change, Annual Rate	3rd Q'83	7.9	9.7	– 1.0
Change in Consumer Prices (new series)*	Sep '83n	6.0%	4.8%	1.2%
Change in Producer Prices*	Sep '83	2.4%	4.8%	1.2%
Civilian Employment (Thousands of Persons) †	Sep '83	101,945	101,563	99,543
Unemployment as % of Civilian Labor Force †	Sep '83	9.3%	9.5%	10.2%
Personal Income*	Sep '83	$ 2,781	$ 2,756	$ 2,597
Leading Indicators Composite Index (1967=100) †	Sep '83n	160.2	158.7r	137.5
Industrial Production Index (1967=100) †	Sep '83	153.7	151.4	137.3
Net Change in Consumer Installment Credit †	Aug '83	$ 3.39	$ 4.84	$ 0.26
U.S. Merchandise Trade Balance †	Sep '83n	–$ 5.81	–$ 7.19	–$ 4.20
Plant and Equipment Expenditures*	4th Q'83	$326.73(a)	$313.04(a)	$303.18
Private Housing Starts (Thousands of Units)*	Sep '83	1,652	1,909	1,134
New Construction Expenditures*	Aug '83	$ 276.1	$ 269.5	$ 231.6
Total Business Inventories †	Aug '83	$ 512.1	$ 505.8	$ 521.3
Total Business Sales †	Aug '83	$ 373.6	$ 372.4	$ 343.4

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

to world trade, will ease, as will the financial strains on developing countries with large amounts of dollar debt. A softer U.S. currency will also help to lower inflation abroad. Most important, the weaker dollar could eventually lead to rising levels of economic activity in a number of industrial countries that have had to maintain lofty domestic interest rates in order to protect their currencies from excessive depreciation against the dollar. As the dollar weakens, interest rates may be allowed to descend from today's high levels in these countries, bolstering business activity—despite the negative impact of a diminishing export-price advantage vis-a-vis the United States.

Take, for example, Japan. Its recovery has been sluggish this year because of high domestic interest rates, which have dampened domestic business activity. These rates have been essentially unchanged for two years, despite a four percentage point plunge in the rate of inflation which lifted Japanese real interest rates to among the highest levels in the world. Yet, one reason why Japan hesitated to reduce these rates was because it feared that such action would prompt additional yen weakness. And, given the country's already strong net export position, Japan wished to forestall further criticism of its trade and exchange rate policies. Only in the last few weeks, with the dollar weaker, did Japan announce a one-half percentage point cut in its discount rate. As the dollar weakens further, Japan may be able to initiate additional interest rate reductions, boosting the country's domestic economic growth.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/12/83)	88,857	– 1,117	–59,579
New York City (10/12/83)	19,182	– 297	–18,318
Commercial Paper (10/12/83)	177,710	+ 800	+ 4,100*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/12/83)	215,640	+ 869	– 3,601
New York City (10/12/83)	58,174	+ 356	– 4,340

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/12/83)	516,455	+ 619	+ 9,868
New York City (10/12/83)	118,574	+ 242	– 3,559

Financial Markets

	Friday 10/28/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.95%	+ .15	+ .85
180-Day Bills†	9.53	+ .28	+ .73
Longest Bills†	9.78	+ .13	+ .63
Recent Issues:			
$10\frac{1}{2}$s 10/31/85 (When Issued)	10.60	+ .10	
$11\frac{1}{8}$s 9/30/87	11.17	+ .20	
$11\frac{7}{8}$s 8/15/93	11.70	+ .30	
12s 8/15/13	11.75	+ .28	
Municipals:			
Bond Buyer–20 Bond Index* (10/27/83)	9.81%	+ .13	– .24
Blue List Total ($ Million)	$1,462	+ $ 26	+ $ 139
30-Day Visible Supply ($ Million)	$2,480	– $344	– $1,799
Total	$3,942	– $318	– $1,660
Corporates:			
Moody's Aa Composite (10/27/83)	12.55%	– .09	– .30
30-Day Visible Supply ($ Million)	$1,750	+ $650	+ $ 330
Stocks:			
Dow-Jones Averages:			
Industrials	1,223.48	– 25.40	+ 231.67
Transportation	576.61	– 13.69	+ 156.42
Utilities	139.26	+ .44	+ 20.12
65 Stocks	492.95	– 9.05	+ 103.92
Standard and Poor's 500 Stocks	163.37	– 2.58	+ 29.66
N.Y.S.E. Composite Index	94.28	– 1.47	+ 17.33
N.Y.S.E. Avg. Daily Vol. for Week (000's)	81,776	– 9,222	– 1,498

* 46% Taxable equivalent 18.17%.

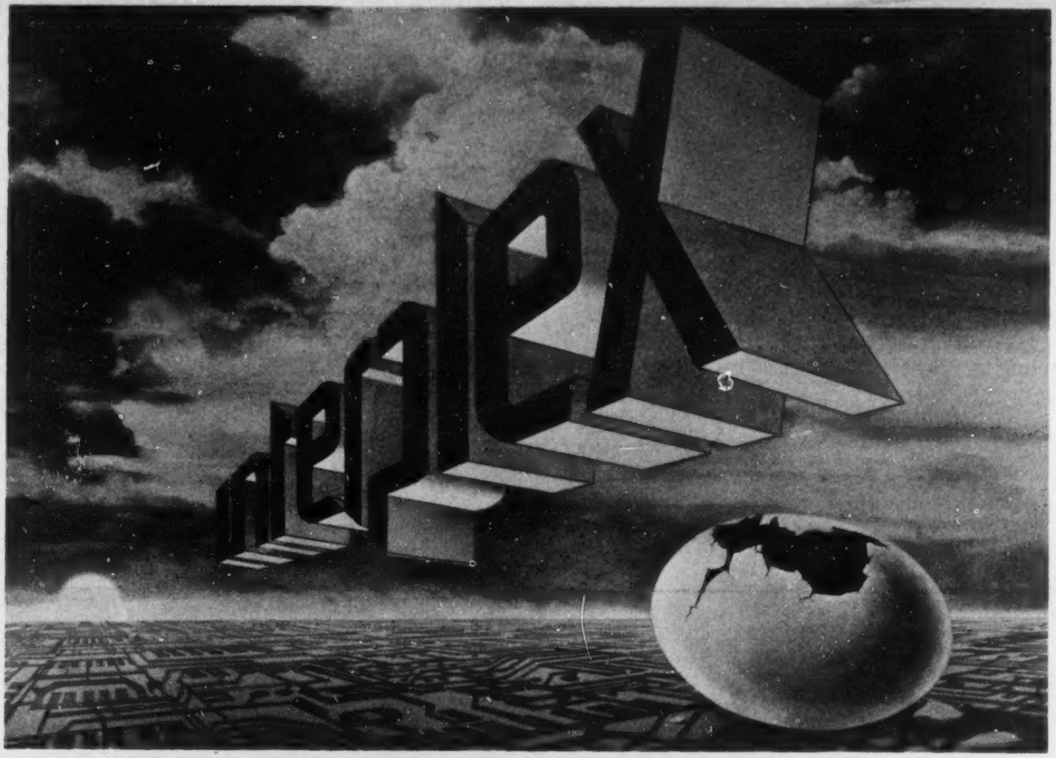
† Bond equivalent.

International Rates

	Friday 10/28/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	9.38%	9.38%
1 month	9.44	9.44
3 month	9.56	9.50
6 month	9.69	9.63
1 year	10.00	9.94
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.50%	11.45%
Long Term (7 to 15 yrs.)	11.60	11.55

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/28/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01877	53.27
Canada	.8114	1.2324
Denmark	.1059	9.4435
France	.1254	7.9765
Germany	.3820	2.6180
Italy	.0006276	1593.25
Japan	.004296	232.80
Mexico	.006309	158.50
Netherlands	.3405	2.9365
Switzerland	.4702	2.1268
U.K.	1.4941	.6693



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